BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of)) HAWAIʻI ELECTRIC LIGHT COMPANY,) INC.)) For Approval of a General Rate) Increase and Revised Rate Schedules) and Rules.))	DOCKET NO. 2018-0368

DECISION AND ORDER NO. 37237

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DECISION AND ORDER

By this Decision and Order,[1] the Public Utilities Commission ("Commission") determines that HAWAII ELECTRIC LIGHT COMPANY, INC.'s ("HELCO" or the "Company") final rates based on its calendar 2019 test year ("2019 Test Year") shall remain at current effective rates, such that there is a zero increase in rates.[2]

[1]The Parties to this proceeding are HELCO and the DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS, DIVISION OF CONSUMER ADVOCACY ("Consumer Advocate"), an ex officio party, pursuant to Hawaii Revised Statutes ("HRS") § 269-51 and Hawaii Administrative Rules § 16-601-62(a). In addition, the Commission has admitted the HAWAII PV COALITION ("HPVC"), BLUE PLANET FOUNDATION ("BluePlanet"), and the COUNTY OF HAWAII ("County") as Participants to this proceeding. See Order No. 36307, "Addressing Motions to Intervene or Participate and Other Matters," filed May 9, 2019 ("Order No. 36307").

[2]See Interim Decision and Order No. 36761, filed November 13, 2019 ("Interim D&O 36761").

In so doing, the Commission, while approving many of the undisputed portions of the Parties' Settlement Letter,[3] finds that HELCO has not satisfactorily justified increases to its 2019 Test Year Operations & Maintenance ("O&M") expenses. Furthermore, a recent management audit of HELCO's parent company, Hawaiian Electric Company, Inc. ("HECO"), has identified a number of areas ripe for improvement across all of the Hawaiian Electric Companies,[4] which reflect existing operational inefficiencies. The Commission also notes that HELCO has received increases to its target revenues through the operation of its decoupling mechanisms, which have afforded HELCO interim relief since its last 2016 test year rate case, and are incorporated into HELCO's current effective rates.

Relatedly, the Commission determines that the appropriate return on common equity ("ROE") for HELCO's 2019 Test Year is 9.50% and approves a capital structure of 58% total equity. Based on these findings, the Commission approves as fair a rate of return on average rate base of 7.52%.

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[3]Joint Letter From: J. Viola and Consumer Advocate To: Commission Re: Docket No. 2018-0368 - Hawaii Electric Light 2019 Test Year Rate Case; Parties' Stipulated Partial Settlement Letter, filed September 24, 2019 ("Settlement Letter").

[4]The "Hawaiian Electric Companies" refers to HELCO, HECO, and Maui Electric Company, Limited ("MECO").

Regarding the other outstanding issues identified in the Commission's Interim D&O 36761, filed November 13, 2019, the Commission: (1) approves a 10-year amortization period for HELCO's State Investment Tax Credit ("State ITC"); (2) declines to modify the automatic annual target heat rate adjustment provisions of HELCO's Energy Cost Recovery Clause ("ECRC") at this time, but notes that this issue may be examined as part of the ongoing investigation in the Performance-Based Regulation ("PBR") proceeding, Docket No. 2018-0088; (3) declines to modify HELCO's Revenue Balancing Account ("RBA") Rate Adjustment mechanism at this time, but will examine this issue in the context of the Commission's investigation into Distributed Energy Resources ("DER"), Docket No. 2019-0323; and (4) approves a modification to HELCO's ECRC to incorporate a risk-sharing mechanism similar to that proposed by Blue Planet, but which shall reflect a 98%/2% risk-sharing split between customers and HELCO, with an annual maximum exposure cap of ±$600,000.

As for the remaining 2019 Test Year determinations on, for example, revenue forecasts, average rate base, and rate design, the Commission approves the Parties' agreed-upon terms as reflected in their Settlement Letter, subject to the Commission's rulings listed above and discussed herein. However, as noted above, due to remaining concerns about the reasonableness of HELCO's test year O&M expenses, the overall impact will be that final rates shall remain at current effective rates as of the date of this Decision and Order.[5]

HELCO shall submit revised tariff sheets consistent with this Decision and Order within thirty (30) days of this Decision and Order for the Commission's review and approval. The Consumer Advocate may submit comments on HELCO's proposed final tariffs within fifteen (15) days of being served with HELCO's proposed final tariffs.

In addition, HELCO shall submit proposed revised tariff sheets for its ECRC tariff, consistent with the findings herein, within thirty (30) days of this Decision and Order for the Commission's review and approval. The Consumer Advocate and Blue Planet may file comments on HELCO's proposed revised ECRC tariff sheets within fifteen (15) days of being served with HELCO's proposed revised ECRC tariff.

[5]In Interim D&O 36761, the Commission approved interim rates at current effective rates at that time. The Commission notes that since Interim D&O 36761, HELCO's current effective rates have been adjusted such that they are no longer the same as when Interim D&O 36761 was issued. For example, on June 1, 2020, HELCO's target revenues and RBA Rate Adjustment were modified in accordance with the RBA Provision tariff and the Rate Adjustment Mechanism ("RAM") Provision tariff. The Commission clarifies that maintaining rates at current effective rates in the context of this Decision and Order will change neither the target revenues and rates that went into effect as of the date of Interim D&O 36761, nor the target revenues and rates that are currently in effect as of the date of this Decision and Order.

I.
BACKGROUND

A.

Relevant Procedural History

The pertinent procedural facts leading up to the Commission's interim decision are discussed in Interim Decision and Order No. 36761 and are hereby incorporated by reference.[6]

B.

Parties' Settlement Letter[7]

On September 24, 2019, the Parties filed their Settlement Letter, which represented the Parties' settlement on all issues in this proceeding except for the following:

1. The ROE;

2. The common equity ratio in HELCO's capital structure;

3. The amortization period for the State ITC; and

[6]See Interim D&O 36761 at 8-21.

[7]In the Settlement Letter, HELCO clarified that it had removed test year estimates related to the power purchase agreement ("PPA") with Hu Honua Bioenergy LLC ("Hu Honua"), "since it appears unlikely that the project will be in-service during calendar year 2019." Settlement Letter, Exhibit 1 at 7. Accordingly, all 2019 Test Year figures and estimates referenced in this Decision and Order exclude the impact of the Hu Honua PPA.

4. The annual target heat rate adjustment; specifically, whether it would be symmetric or asymmetric.[8]

The Settlement Letter summarized the Parties' positions on these disputed issues as follows:[9]

	HELCO	**Consumer Advocate**
Return on Common Equity	10.50%	8.75%
Common Equity Ratio	56.83%	53.05%
State ITC Amortization period	40 years	10 years
Annual Target Heat Rate Adjustment	Symmetric	Asymmetric

On October 1, 2019, HELCO and the Consumer Advocate filed their Statements of Probable Entitlement which reflected their respective positions on the disputed issues.[10]

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[8]Settlement Letter at 1.

[9]Settlement Letter, Exhibit 1 at 5.

[10]Letter From: J. Viola To: Commission Re: Docket No. 2018-0368 - Hawaii Electric Light 2019 Test Year Case; Hawaii Electric Light Statement of Probable Entitlement, filed October 1, 2019 ("HELCO Statement of Probable Entitlement"); and Letter From: Consumer Advocate To: Commission Re: Docket No. 2018-0368 - In the Matter of the Application of Hawaii Electric Light Company, Inc., For Approval of a General Rate Increase and Revised Rate Schedules and Rules - Statement of Probable Entitlement, filed October 1, 2019 ("CA Statement of Probable Entitlement").

C.

Interim Decision and Order No. 36761

On November 13, 2019, the Commission issued Interim D&O 36761. In Interim D&O 36761, the Commission denied the proposed interim increase in revenues and instead set interim revenues at current effective revenues, resulting in a zero increase in rates.[11] In doing so, the Commission accepted:

1. The Parties' Settlement Letter, subject to certain modifications;

2. HELCO's proposed ROE of 9.50%;

3. HELCO's proposed total equity ratio of 58.00% (consisting of the sum of 1.17% preferred stock and 56.83% common equity); and

4. The Consumer Advocate's proposed ten-year amortization period for the State ITC.

However:

1. The Commission found that HELCO had not met its burden of proving that it is probably entitled to an increase in revenues on an interim basis that is in addition to current effective revenues.

2. The Commission declined to accept the Parties' stipulation on HELCO's proposed changes to the application of the

[11]Interim D&O 36761 at 3-4.

RBA Rate Adjustment from a cents/kWh basis to a net-of-base-bill basis; however, stated that, following further deliberation, the Commission may do so in its final decision.

3. The Commission declined to implement the Parties' proposed method of allocating the interim adjustment as an equal percentage of base revenues for each rate class; however, the Commission stated it may consider the Parties' proposed implementation method for final rates pending further examination.

4. The Commission declined to accept, at that time, a fossil fuel cost risk sharing of 2% of the risk of the change in fossil fuel prices, with an annual exposure capped at +/- $600,000; however, the Commission stated that, following further deliberation, the Commission may do so in its final decision.[12]

Accordingly, for this final decision, the Commission stated it would continue to consider:

> 1. The four disputed issues between the Parties (i.e., ROE, common equity ratio, State ITC amortization period, and the annual target heat rate adjustment).
>
> 2. Based on the $10,561,000 increase in non-fuel-and-purchased-power O&M expenses between the 2016 test year and the [Settlement Letter], and assuming a 9.50% ROE, 58.00% total equity ratio, and ten-year amortization period for the State ITC, whether it is reasonable to:
>
> A. Approve an increase in HELCO's revenues above current effective revenues;

[12]Interim D&O 36761 at 5-6.

B. Maintain HELCO's revenues at current effective revenues; or

C. Approve revenues in an amount that is less than current effective revenues.

3. Rate design provisions, including customer charges, demand charges, demand charge ratchet provisions, and other specific changes identified in the [Settlement Letter], Exhibit 1 at pages 103 to 107.

4. The proposed implementation of the RBA Rate Adjustment on a percentage-of-base-bill basis rather than on a [cents/]kWh basis, including HPVC's position on this issue.

5. Blue Planet's proposed ECRC modifications (i.e., its proposed 5%/95% risk sharing ratio with a maximum annual exposure of +/- $1.0 million, adopting a mechanism under which the ECRC for fossil fuels would be phased down over twenty-five years, by 2044, and eliminating the heat rate adjustment in the ECRC).

6. County's testimony, including but not limited to Nathan Johnson's testimony about "infrastructure susceptibility to natural disasters and implications for rates" and "rate base value of grid modernization and non-wire alternatives," and the reports that Kris Mayes proposes that HELCO be required to file.[13]

Based on the findings and conclusions made in Interim D&O 36761, the Commission instructed HELCO and the Consumer Advocate to submit a filing notifying the Commission whether they intended to withdraw from the Settlement Letter based on the findings and conclusions made in Interim D&O 36761,

[13]Interim D&O at 49-50.

and whether the Parties wished to waive their rights to an evidentiary hearing on the issues.[14]

D.

Waiver of the Evidentiary Hearing and Post-Interim Briefing

On November 25, 2019, HELCO and the Consumer Advocate filed responses to Interim D&O 36761, stating that they do not intend to withdraw from the Settlement Letter, and they also waived their right to an evidentiary hearing on the remaining disputed issues (i.e., ROE, common equity ratio, annual target heat rate adjustment, and amortization period of the State ITC).[15]

On December 13, 2019, the Commission issued Order No. 36876 which: (1) approved revised tariff sheets in accordance with Interim D&O 36761; (2) modified the procedural schedule to remove the evidentiary hearing and related procedural deadlines and provide an opportunity for the Parties and Participants to submit briefing on the disputed issues identified in Interim D&O 36761 that were not resolved by the Parties'

[14]Interim D&O 36761 at 55.

[15]"Division of Consumer Advocacy's Response to Interim Decision and Order No. 36761," filed November 25, 2019; and Letter From: J. Viola To: Commission Re: Docket No. 2018-0368 - Hawaii Electric Light 2019 Test Year Rate Case; Notification Regarding Partial Stipulated Settlement, filed November 25, 2019.

Settlement Letter.[16] The Commission also approved HELCO's request to submit supplemental responses to Commission information requests ("IRs") concerning HELCO's 2019 Test Year increases in non-fuel and purchased power O&M expenses, in light of the Commission's finding in Interim D&O 36761 that HELCO had not met its burden of proving probable entitlement for an interim increase in revenues.[17]

Pursuant to Order No. 36876, on January 17, 2020, HELCO filed supplemental information regarding its proposed increase in O&M expenses.[18] Similarly, on February 3, 2020, the Parties and Participants submitted their Opening Briefs on the

[16]Order No. 36876, "Approving HELCO's Proposed Tariff Sheets and Proposed PIM Tariff Revisions, and Modifying the Procedural Schedule," filed December 13, 2019 ("Order No. 36876").

[17]See Order No. 36876 at 16-17.

[18]Hawaii Electric Light Company, Inc., 2019 Test Year Rate Case; Hawaii Electric Light Supplemental Information; Docket No. 2018-0368, filed January 17, 2020 ("HELCO Supplemental Information").

disputed issues.[19] On February 24, 2020, the Parties and Participants filed their Reply Briefs on the disputed issues.[20]

Pursuant to the Settlement Letter and the modified procedural schedule set forth in Order No. 36876, no further procedural steps are contemplated for the Parties and Participants, and the record is ready for decision-making by the Commission.

E.

Statement of Issues

As set forth in Order No. 36353, the issues in this proceeding are, as follows:

1. Is HELCO's proposed rate increase reasonable?

[19]"Hawaii Electric Light Company, Inc.'s Opening Brief; Exhibits 1-3; and Certificate of Service," filed February 3, 2020 ("HELCO Opening Brief"); "Division of Consumer Advocacy's Opening Brief; Certificate of Service," filed February 3, 2020 ("CA Opening Brief"); "County of Hawaii's Opening Brief; and Certificate of Service," filed February 3, 2020 ("COH Opening Brief"); and "Opening Brief of the Hawaii PV Coalition; and Certificate of Service," filed February 3, 2020 ("HPVC Opening Brief"). Blue Planet did not file an Opening Brief.

[20]"Hawaii Electric Light Company, Inc.'s Reply Brief; and Certificate of Service," filed February 24, 2020 ("HELCO Reply Brief"); "Division of Consumer Advocacy's Reply Brief; Certificate of Service," filed February 24, 2020 ("CA Reply Brief"); and "County of Hawaii's Reply Brief; and Certificate of Service," filed February 24, 2020 ("COH Reply Brief"). HPVC and Blue Planet did not file Reply Briefs.

a. Are the revenue estimates for the 2019 test year at current effective rates, present rates, and proposed rates reasonable?

b. Are HELCO's proposed operating expenses for the 2019 test year reasonable?

c. Is HELCO's proposed rate base for the 2019 test year reasonable, and are the properties included in rate base used and useful for public utility purposes?

d. Is HELCO's requested rate of return fair?

2. What is the amount of the interim rate increase, if any, to which HELCO is probably entitled under HRS § 269-16(d)?[21]

3. Are HELCO's proposed tariffs, rates, charges, and rules just and reasonable?

a. Is HELCO's proposed methodology for allocating costs among its customer classes reasonable?

b. Is HELCO's rate design for collecting its costs from its customer classes reasonable?

c. Are the proposed revisions to the Energy Cost Recovery Clause ("ECRC") tariff just and reasonable?

d. Whether and, if so, what changes to HELCO's ECRC tariff should be made to reasonably share risks of fuel price volatility?

e. Whether HELCO's proposed rate design, rate schedules, and Revenue Balancing Account ("RBA") changes affect distributed energy resources ("DER") in Hawaii.

4. As applicable, addressing HRS § 269-6(b), which states:

[21]Issue No. 2 was resolved through Interim D&O 36761.

> The public utilities commission shall consider the need to reduce the State's reliance on fossil fuels through energy efficiency and increased renewable energy generation in exercising its authority and duties under this chapter. In making determinations of the reasonableness of the costs of utility system capital improvements and operations, the commission shall explicitly consider, quantitatively or qualitatively, the effect of the State's reliance on fossil fuels on price volatility, export of funds for fuel imports, fuel supply reliability risk, and greenhouse gas emissions. The commission may determine that short-term costs or direct costs that are higher than alternatives relying more heavily on fossil fuels are reasonable, considering the impacts resulting from the use of fossil fuels.[22]

II.

DISCUSSION

Pursuant to HRS § 269-16(a), "[a]ll rates, fares, charges, classifications, schedules, rules, and practices made, charged, or observed by any public utility . . . shall be just and reasonable and shall be filed with the [Commission]." Moreover:

> (b) No rate, fare, charge, classification, schedule, rule, or practice, other than one established pursuant to an automatic rate adjustment clause previously approved by the commission, shall be established, abandoned, modified, or departed from by any public utility, except after thirty days' notice to the commission as prescribed in section 269-12(b), and prior approval by the commission for any increases in rates, fares, or charges. . . . A contested case

[22]Order No. 36353, "Approving with Modifications the Parties' Proposed Procedural Order," filed June 5, 2019, at 10-11.

hearing shall be held in connection with any increase in rates, and the hearing shall be preceded by a public hearing as prescribed in section 269-12(c), at which the consumers or patrons of the public utility may present testimony to the commission concerning the increase. The commission, upon notice to the public utility, may:

(1) Suspend the operation of all or any part of the proposed rate, fare, charge, classification, schedule, rule, or practice or any proposed abandonment or modification thereof or departure therefrom;

(2) After a hearing, by order:

(A) Regulate, fix, and change all such rates, fares, charges, classifications, schedules, rules, and practices so that the same shall be just and reasonable;

(B) Prohibit rebates and unreasonable discrimination between localities or between users or consumers under substantially similar conditions;

(C) Regulate the manner in which the property of every public utility is operated with reference to the safety and accommodation of the public;

(D) Prescribe its form and method of keeping accounts, books, and records, and its accounting system;

(E) Regulate the return upon its public utility property;

(F) Regulate the incurring of indebtedness relating to its public utility business; and

(G) Regulate its financial transactions; and

(3) Do all things that are necessary and in the exercise of the commission's power and jurisdiction, all of which as so ordered, regulated, fixed, and changed are just and reasonable, and provide a fair return on the property of the utility used and useful for public utility purposes.[23]

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[23]HRS § 269-16(b).

Under the "just and reasonable" standard mandated by HRS § 269-16, "it is the result reached and not the method employed which is controlling."[24] "[T]he reasonableness of rates is not determined by a fixed formula but is a fact question requiring the exercise of sound discretion by the Commission."[25]

To that end, the Commission "is not bound to accept the view of one of the parties in the case."[26] Moreover, an "agreement between the parties in a rate case cannot bind the [Commission], as the [Commission] has an independent obligation to set fair and just rates and arrive at its own conclusions."[27]

Indeed, the "methodology employed by the [Commission] in its rate-making determination lies within its expertise and discretion[,]" and the Commission "is free, within the ambit of its statutory authority, to make pragmatic adjustments called for by particular circumstances."[28]

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[24]In re Hawaii Elec. Light Co., Inc. (In re HELCO), 67 Haw. 425, 431, 690 P.2d 274, 279 (1984) (citation and block format omitted).

[25]In re HELCO, 60 Haw. 625, 636, 594 P.2d 612, 620 (1979).

[26]In re HELCO, 67 Haw at 429, 690 P.2d at 278.

[27]In re Hawaiian Elec. Co., Inc., 5 Haw. App. 445, 447, 698 P.2d 304, 307 (1985).

[28]In re HELCO, 67 Haw at 431, 690 P.2d at 279; see In re Hawaiian Tel. Co., 67 Haw. 370, 382, 689 P.2d 741, 749 (1984) ("[T]he ratemaking function involves the making of 'pragmatic' adjustments and . . . there is a 'zone of reasonableness' within

As discussed below, Interim D&O 36761 accepted the Parties' Settlement Letter subject to certain modifications, and deferred resolution of certain issues in this proceeding. This Decision and Order addresses those deferred issues and affirms the interim decision to maintain rates at current effective rates.

A.

Issues Contested by the Parties

1.

Common Equity Ratio

A utility's capital structure is how it chooses to finance its investments and operations, usually through a combination of debt and equity. For HELCO, "[t]he sources of capital funds that make up the Company's capital structure include: (1) short-term borrowings; (2) long-term borrowings; (3) hybrid securities; (4) preferred stock; and (5) common stock."[29] HELCO applies certain weights to each of these costs to calculate an overall cost of capital.

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which the Commission may exercise its judgment." (citations and some quotation marks omitted, ellipsis in original)).

[29]HELCO Opening Brief at 63.

HELCO proposed a capital structure of 0.61% short-term debt, 40.59% long-term debt, 0.80% hybrid securities, 1.17% preferred stock and 56.83% common equity.[30] HELCO derived this capital structure by "beg[inning] with the recorded balances as of December 31, 2017 and estimated changes in 2018 and 2019."[31] The estimated changes are derived from "the sources and uses of investor funds (e.g., earnings and capital expenditures) and new issuances of external financing."[32] The resulting "combined preferred stock and common equity proportions (1.17% + 56.91% = 58.08%) would meet the Company's target capitalization of 58% combined preferred stock and common equity."[33] HELCO asserts that a 58% equity ratio target "was established to take into account the adjustments rating agencies make for imputed debt (e.g., adjustments for PPAs, pension obligations and operating leases)."[34]

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[30]Settlement Letter, Exhibit 1 at 99 (the Settlement Letter notes that this reflects adjustments to the capital structure initially proposed by HELCO in its Direct Testimony).

[31]"Hawaii Electric Light Company, Inc. 2019 Test Year; Direct Testimonies and Exhibits," filed December 14, 2018 ("HELCO DT"), HELCO T-22 at 50.

[32]HELCO DT, HELCO T-22 at 50.

[33]HELCO DT, HELCO T-22 at 50.

[34]HELCO DT, HELCO T-22 at 51.

The Consumer Advocate proposed a capital structure of 44.12% long-term debt, 1.66% hybrid securities, 1.17% preferred stock, and 53.05% common equity.[35] The Consumer Advocate derived this capital structure by starting with HELCO's proposed capital structure and then adjusting the common equity proportion downward so that it equals the common equity proportion of Hawaiian Electric Industries, Inc. ("HEI"), HELCO's parent company, in 2018, while making a similar sized upwards adjustment to the long-term debt proportion.[36]

At issue between the Parties is the appropriate ratio of equity to debt for HELCO's 2019 Test Year capital structure. According to the Consumer Advocate, a parent holding company's consolidated equity ratio tends to be greater than its regulated subsidiary's, as a parent company's non-regulated operations tend to implicate greater risk.[37] In situations where a regulated subsidiary's common equity ratio is greater than its parent company's, "the implication is [that] the holding company is 'leaning' on the capitalization of the regulated utility

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[35]Settlement Letter, Exhibit 1 at 100.

[36]See "Division of Consumer Advocacy's Direct Testimonies, Exhibits, and Workpapers," filed July 25, 2019 ("CA DT"), CA-T-4 at 31-32.

[37]See CA DT, CA-T-4 at 30-31.

operations to support some of the risk of the non-regulated operations."[38]

Accordingly, the Consumer Advocate states that "[t]here is no need for HELCO's customers to pay the extra costs associated with 56.91% common equity ratio[,]" and recommends a lower common equity ratio of 53.05% that is more in line with HEI's consolidated capital structure.[39]

In its Reply Brief, the Consumer Advocate further asserts that the Commission should "take stock of all relevant facts in setting HELCO's capital structure and that should include the parent company's capital structure."[40] According to the Consumer Advocate, it is "generally understood that unregulated operations are deemed riskier than regulated operations" and, as such, granting HELCO's requested capital structure could lead to the unreasonable conclusion that the unregulated operations by HELCO's affiliates are somehow less risky than the utility operations.[41]

Upon review of the record, including the Parties' post-Interim D&O 36761 briefing, the Commission does not find the

[38]CA DT, CA-T-4 at 31.

[39]CA DT, CA-T-4 at 32.

[40]CA Reply Brief at 10.

[41]CA Reply Brief at 10.

Consumer Advocate's comparison to HEI's capital structure to be persuasive. HEI is a holding company with various subsidiaries, most notably the HECO Companies and American Savings Bank (both of which are entities subject to different forms of regulation). Given the inclusion of American Savings Banks within HEI, HEI's capital structure is different than if it only included electric utility subsidiaries and the Commission is not persuaded that it should be used as a basis for setting HELCO's rates.

HELCO's proposed capital structure appears reasonable because it would align its authorized equity ratio with its financing plan's target equity ratio of 58%. While a common equity ratio of 56.83% is high relative to HELCO's peer companies, it is still within the range of equity ratios of HELCO's peer companies.[42] Furthermore, given that a credit rating agency may make an adjustment for any imputed debt taken on by HELCO, this higher equity ratio may help support HELCO's efforts to meet the State's ambitious RPS goals without jeopardizing its credit rating. Indeed, HELCO expects to have several new renewable PPAs in place in the coming years,[43] and a 58% equity ratio will help offset

[42]According to HELCO, the common equity ratios of HELCO's peer companies range from 43.73% to 63.13%, with a mean of 52.65%. See HELCO DT, HELCO-2112. According to the Consumer Advocate, the common equity ratios of HELCO's peer companies range from 31.08% to 60.15%, with a mean of 48.05%. See CA DT, CA-417 at 1.

[43]See, e.g., Docket Nos. 2018-0430 and 2018-0432.

additional imputed debt attributed to these new renewable PPAs by credit ratings agencies.

Moreover, in HELCO's 2010 test year rate case, HELCO and the Consumer Advocate stipulated to a 57.24% total equity ratio (1.33% preferred stock and 55.91% common equity),[44] which the Commission approved.[45] This total equity ratio remained the same until HELCO's 2016 test year rate case,[46] wherein HELCO and the Consumer Advocate stipulated to a 58.00% total equity ratio (1.31% preferred stock and 56.69% common equity).[47]

D&O 35559 was filed on June 29, 2018, or approximately two years prior to this Decision and Order. The Commission found that another change to HELCO's total equity ratio after a relatively brief period, as proposed by the Consumer Advocate,

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[44] In re Hawaii Elec. Light Co., Inc., Docket No. 2009-0164, "Stipulated Settlement Letter," filed September 16, 2010, Exhibit 1 at 93.

[45] See Docket No. 2009-0164, Decision and Order No. 30168, filed February 8, 2012, at 81-82, 108.

[46] See In re Hawaii Elec. Light Co., Inc., Docket No. 2012-0099, Order No. 31133, "Closing the Docket," filed March 27, 2013, at 2 (observing that the Commission approved the withdrawal of HELCO's application filed in Docket No. 2012-0099); see In re Hawaiian Elec. Co., Inc., Docket No. 2008-0083, Order No. 31126, "Approving, With Clarifications, Stipulated Settlement Agreement, Filed on January 28, 2013," filed March 19, 2013, at 9 (approving the agreement to withdraw HELCO's application in its 2013 rate case).

[47] In re Hawaii Elec. Light Co., Inc., Docket No. 2015-0170, Final Decision and Order No. 35559, filed June 28, 2018 ("D&O 35559"), at 66 n.167.

could adversely impact HELCO’s credit quality, thereby causing an increase in cost in HELCO’s financing needs, which may be passed on to HELCO’s customers.[48]

In sum, the Commission finds HELCO’s position in connection with its proposed common equity ratio to be reasonable under the circumstances presented in this docket. Accordingly, the Commission accepts and finds reasonable HELCO’s proposed 56.83% common equity ratio for its 2019 Test Year. HELCO’s resulting capital structure therefore shall be 0.61% short-term debt, 40.59% long-term debt, 0.80% hybrid securities, 1.17% preferred stock and 56.83% common equity.

2.

Return On Equity

The cost of common equity is not directly observable, but can be estimated by using several different financial models. As each model is subject to its own assumptions and constraints, multiple models are often used to estimate the cost of common equity, as this mitigates the risks associated with using only one model. As noted by the Hawaii Supreme Court:

> The proper return to be accorded common equity is the most difficult and least exact calculation in the whole

[48]See generally HELCO Rebuttal Testimonies, HELCO RT-21B.

rate of return procedure since there is no contractual cost as in the case of debt or preferred stock. . . . . :

> Equity capital does not always pay dividends; all profits after fixed charges accrue to it and it must withstand all losses. The cost of such capital cannot be read or computed directly from the company's books. Its determination involves a judgment of what return on equity is necessary to enable the utility to attract enough equity capital to satisfy its service obligations.[49]

In this proceeding, the Parties relied on several different models to estimate HELCO's 2019 Test Year ROE, including the Discounted Cash Flow model and the Capital Asset Pricing Model. In addition, HELCO also used a third model, the Bond Yield Plus Risk Premium model.[50] Based on their respective application of these models, the Parties have produced separate ranges of acceptable ROE:

HELCO's Range of ROE Estimates

Method	**Cost**
DCF	8.49% - 10.26%
CAPM	9.04% - 11.87%
BYPRP	9.98% - 10.27%

[49] In re Haw. Elec. Light Co., Inc., 60 Haw. 625, 633 and 636, 594 P.2d 612, 618-19 (1979) (citations omitted).

[50] See HELCO DT, HELCO T-21 at 5-6; and CA DT, CA-T-4 at 10 and 20.

From this range of estimates, HELCO proposed a ROE of 10.65%, on the higher end of this range to account for the perceived riskier profile of HELCO compared to its peers.[51]

Consumer Advocate's Range of ROE Estimates

Method	Cost
DCF	6.26% - 12.73%
CAPM	6.44% - 11.68%

From this range of estimates, the Consumer Advocate ultimately proposed a ROE of 8.75%, based primarily on its DCF analysis.[52]

The Parties could not reach an agreement for the ROE in their Settlement Letter.[53] Nevertheless, in its Statement of Probable Entitlement, HELCO proposed using a ROE of 9.50% to set interim rates.[54] In doing to, HELCO stated that it "believes this is a reasonable approach for purposes of the interim award in that it is consistent with the existing ROE and capital structure for [HELCO], as well as with the most recent ROE and capital structure approved for another of the Hawaiian Electric Companies

[51]See HELCO DT, HELCO T-21 at 92-93.

[52]See CA DT, CA-T-4 at 33-34.

[53]Settlement Letter, Exhibit 1 at 101.

[54]See HELCO Statement of Probable Entitlement at 3.

approximately six months ago."[55] Similarly, HELCO stated, "[i]n terms of reasonableness, the Company's proposed ROE and capital structure for interim award purposes is also a rough middle ground between the Company's and Consumer Advocate's positions on the issues."[56]

In Interim D&O 36761, the Commission approved HELCO's 9.50% ROE (along with HELCO's proposed 58.00% equity ratio) for purposes of setting interim rates.[57]

Upon review of the record, as well as taking recent events into account, the Commission finds that maintaining a ROE of 9.50% for HELCO's 2019 Test Year for purposes of final rates is fair and reasonable. In so finding, the Commission takes the following into consideration.

First, 9.50% ROE falls within the range of estimated ROE proposed by the Parties, as reflected in the tables above.

Second, HELCO has noted that a 9.50% ROE is "a rough middle ground between the Company's and Consumer Advocate's positions on the issues[,]" and supported it as "a reasonable approach . . . consistent with the existing ROE and capital structure for [HELCO], as well as . . . another of the

[55]HELCO Statement of Probable Entitlement at 3.

[56]HELCO Statement of Probable Entitlement at 3.

[57]Interim D&O 36761 at 24.

Hawaiian Electric Companies approximately six months ago."[58] The Commission presumes that HELCO is referring to the final rates approved for MECO based on its 2018 test year, which incorporated a 9.50% ROE, and were approved by Decision and Order No. 36219, filed March 18, 2019, in Docket No. 2017-0150.[59] (The Commission further observes that a 9.50% ROE was stipulated and approved in HECO's last 2017 test year rate case, Docket No. 2016-0328).[60]

Third, while not dispositive of this issue in this proceeding, the Commission takes administrative notice of the findings and conclusions in these other Hawaiian Electric Companies' rate case proceedings as external indicators of the reasonableness of HELCO's proposed 9.50% ROE in this proceeding.[61]

Fourth, HELCO's current ROE is 9.50%, which was recently approved in HELCO's last rate case, based on a 2016 test year.[62] In light of the uncertain economic times, resulting in significant

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[58]HELCO Statement of Probable Entitlement at 3.

[59]See In re Maui Elec. Co., Ltd., Docket No. 2017-0150, Decision and Order No. 36219, filed March 18, 2019, at 24-26.

[60]See In Hawaiian Elec. Co., Inc., Docket No. 2016-0328, Final Decision and Order No. 35545, filed June 22, 2018, at 40-42.

[61]See In re Haw. Elec. Co., Inc., 60 Haw. at 633-35, 594 P.2d at 619-20 (holding that Commission did not err in allowing HELCO to adopt the ROE previously approved for HECO).

[62]See In re Haw. Elec. Light Co., Inc., Docket No. 2015-0170, Final Decision and Order No. 35559, filed June 29, 2018 ("D&O 35559"), at 66-68.

part from the global COVID-19 pandemic, maintaining HELCO's ROE at 9.50% may help provide market assurance and stability to HELCO's investors.

In light of the Commission's above determinations regarding HELCO's 2019 Test Year capital structure and ROE, HELCO's overall rate of return for the 2019 Test Year is 7.52%, as reflected in the table below:

	Percentage	Cost	Weighted Cost
Short-term Debt	0.61%	3.75%	0.02%
Long-term Debt	40.59%	4.79%	1.94%
Hybrid Securities	0.80%	7.83%	0.06%
Preferred Stock	1.17%	8.12%	0.10%
Common Equity	56.83%	9.50%	5.40%
Rate of Return			7.52%

3.

Amortization of the State ITC

According to HELCO, "[t]he State ITC is earned when qualifying equipment is purchased and placed into service by businesses in Hawai'i."[63] "It consists primarily of the capital goods excise tax credit that was enacted in 1987 under

[63]HELCO Opening Brief at 170.

HRS § 235-110.7[,]" but also includes the State Renewable Energy Technologies Tax Credit (Solar).[64] For purposes of regulatory treatment, this tax credit is deferred on a utility's books in the year it is earned (applied) and is then subsequently amortized over a fixed period of time, usually the estimated composite life of the associated asset. The amortization period determines the annual amortization amount, which reduces operating expenses. The average unamortized balance is reflected as a deduction to rate base.

Here, it appears undisputed that HELCO's average 2019 Test Year State ITC balance is $16,457,000.[65] The Parties' disagreement arises over the length over which to amortize this accumulated average State ITC balance.

HELCO asserts that the amortization period for the State ITC should be matched to the depreciable life of the related assets.[66] Accordingly, HELCO maintains a 40-year amortization

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[64]HELCO Opening Brief at 170; and HELCO response to CA-IR-92, Attachment 9 at 1 (Supplement 7/18/2019).

[65]See HELCO response to CA-IR-92, Attachment 9 at 1 (Supplement 7/18/2019). Due to the scheduled frequency of HELCO's general rate cases (i.e., triennial rate case cycle), the balance of HELCO's State ITC has not been fully amortized in between general rate cases, and the current average balance of $16,457,000 represents an accumulation of prior, unamortized State ITC from HELCO's prior rate cases and the accrual of additional State ITC since HELCO's last general rate case in 2016.

[66]HELCO Opening Brief at 170.

period is appropriate based on the approximate useful life of the assets which gave rise to the tax credits.[67]

The Consumer Advocate counters that, "unlike the United States Federal Tax Code, which expressly limits the regulatory treatment of the Federal Investment Tax Credits . . . the State ITC is not subject to any amortization rules that restrict [HELCO] from more rapidly amortizing State ITC amounts for the benefit of ratepayers."[68] In this regard, the Consumer Advocate points out that both HECO and MECO have agreed to shorter, 10-year amortization periods in their recent general rate case proceedings.[69] The Consumer Advocate maintains that accelerating the State ITC amortization over a 10-year period, rather than a 40-year period, "will enable customers to receive the benefits of the State ITC tax savings faster, [by] significantly reducing the utility's revenue requirement."[70]

The Consumer Advocate also maintains that an accelerated amortization period helps mitigate the impacts arising from the "front loaded" nature of assets as they are placed into rate base.[71]

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[67]HELCO Opening Brief at 170.

[68]CA Opening Brief at 18.

[69]CA Opening Brief at 18; see also, Docket Nos. 2016-0328 and 2017-0150.

[70]CA Opening Brief at 19.

[71]See CA Opening Brief at 20-21.

As noted by the Consumer Advocate, for ratemaking purposes, when a utility asset is placed in service, the full value of the asset is included in rate base and is then slowly reduced by accumulated depreciation over time.[72] Accordingly, the Consumer Advocate contends that "[t]he sooner an asset's otherwise front-loaded revenue requirement can be reduced, the better for utility customers."[73] Accelerating the amortization of the State ITC can help mitigate this impact by increasing the amortization of State ITC which helps offset increases to revenue requirement.[74]

Finally, the Consumer Advocate notes that HELCO receives the benefit of the State ITC immediately upon filing of its taxes, whereas ratepayers would need to wait 40 years for this benefit to be passed along under HELCO's position.[75] Given the accumulative nature of the utility's State ITC balance (i.e., historically, the accrual and inclusion of State ITC has outpaced the approved

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[72]See CA Opening Brief at 20 (including table). This is primarily due to the fact that regulatory accounting allows a utility to compute the depreciation expense of an asset on a straight-line basis over the life of the asset (rather than on an accelerated basis).

[73]CA Opening Brief at 20.

[74]As reflected in HELCO's results of operations, the annual amortization amount of the State ITC acts as a decrease to test year operating expenses. Consequently, a shorter amortization period results in a larger offset to test year operating expenses, thereby reducing the overall revenue requirement.

[75]See CA Opening Brief at 21.

amortization periods), the Consumer Advocate contends that a shorter amortization period would help to mitigate this burden.[76]

Upon review of the record, the Commission approves a 10-year amortization period for HELCO's State ITC for its 2019 Test Year. In doing so, the Commission concurs with the arguments put forth by the Consumer Advocate. In particular, the Commission observes that, unlike the federal ITC, there is no requirement for a specific amortization period for the State ITC.

Turning to the substance of the Consumer Advocate's position, the Commission notes that a shorter amortization period will allow ratepayers to more quickly share in the benefits of HELCO's State ITC. In reaching this conclusion, the Commission takes the following into consideration.

1. HELCO receives the benefit of the State ITC when it files its tax return. This value is immediately conveyed to shareholders, whereas ratepayers will receive this benefit incrementally over a fixed period of time (i.e., the amortization period); to the extent this period can be shortened, ratepayers can begin enjoying sharing in these benefits more quickly.

2. Related to the above, an accelerated amortization period provides a greater benefit to ratepayers, in that the State ITC amortization amount is larger and thus provides a greater

[76]See CA Opening Brief at 21.

decrease to operating expenses in the test year. While always an important consideration, this is especially pertinent in light of the current economic circumstances facing Hawaii.

3. Accelerating the amortization period of the State ITC is income neutral to the Company, because the more rapid amortization would reduce tax expenses on the books to coincide with lower net tax expense recoveries from ratepayers (i.e., the amount to be recovered under either proposal is the same, with the only difference being the period over which this amount is recovered/amortized).

In sum, the Commission finds and concludes that a 10-year amortization period for HELCO's State ITC for its 2019 Test Year is just and reasonable in light of the record and attendant circumstances. HELCO has already enjoyed the benefit of the State ITC and accelerating the amortization period is not expected to negatively impact HELCO, while providing much needed relief to ratepayers in this time of economic challenges.

4.

Annual Target Heat Rate Adjustment

HELCO's ECRC tariff currently includes "an annual adjustment to [Industrial Fuel Oil ("IFO")] and diesel target heat rates based on the target heat rate in effect for the prior calendar year plus one-half of the difference between the target heat rate and the actual heat rate for the prior calendar year."[77] In its Direct Testimonies, HELCO did not recommend any changes to this component of its ECRC tariff.[78]

In its Direct Testimonies, the Consumer Advocate recommended modifying HELCO's ECRC tariff such that this automatic annual adjustment be downward only, such that HELCO's target heat rate for IFO and diesel would only be automatically adjusted if the prior year's actual sales heat rate was less than the target sales heat rate applicable in that year.[79] If the actual sales heat rate is less than the applicable target sales heat rate, then the target heat rate would be reduced by one-half of the difference between the prior year's actual sales heat rate and the target sales heat rate applicable in that year; however, if the prior year's actual sales heat rate was greater than or equal to the applicable target sales heat rate, the target sales heat rate would not change (i.e., it would not be adjusted upward).[80]

The Consumer Advocate maintains that such an asymmetrical (i.e., downward only) automatic annual adjustment is

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[77]Settlement Letter, Exhibit 1 at 13 (citing Energy Cost Recovery Clause, Modifications to Target Heat Rates and Deadbands at Revised Sheet No. 63B and 63C).

[78]Settlement Letter, Exhibit 1 at 13.

[79]See CA DT, CA-T-5 at 26.

[80]See CA DT, CA-T-5 at 26.

consistent with the ECRC tariffs for HECO and MECO and that such consistency "is especially important in consideration of potential multi-year rate plans where customers should be fairly and adequately protected against cost increases that are outside of the customer's control."[81] According to the Consumer Advocate:

> If subsequent changes to the ECRC tariff are necessary to create a fair and balance[d] sharing of fuel and purchased power costs between the Company and ratepayers, those ECRC changes should be reviewed and considered for all three Companies jointly to avoid creating potential incentives or opportunities that benefits one Company over another.[82]

Additionally, the Consumer Advocate voices concern that a symmetrical annual target heat rate adjustment could result in heat rate increases not associated with the integration of renewable energy or clean energy resources that are automatically passed on to customers.[83] "While it might make intuitive sense that the sales heat rates could increase as renewable energy generation increases, that may be a gross generalization as those impacts have not been observed on HELCO's system to date."[84] The Consumer Advocate also notes that HELCO has acknowledged that "[t]here is not necessarily a linear relationship between

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[81]CA Opening Brief at 24-25.

[82]CA Opening Brief at 25.

[83]CA Opening Brief at 31.

[84]CA Opening Brief at 29.

additional renewables on the system and increasing heat rates[,]" and that HELCO has "not prepared studies or calculations to illustrate the amount of additional renewable energy resources that may cause the heat rate to increase."[85]

Relatedly, the Consumer Advocate contends that there is an asymmetry in the availability of relevant information, and the ability to timely act on that information, in that the Consumer Advocate does not actively determine the operational strategies that HELCO uses to dispatch its system; does not continually calculate heat rate impacts for the monthly or quarterly filings, but instead reacts to data provided; and does not have an on-going role in fuel procurement, maintenance outage scheduling, or allocation of funds available to perform generating unit maintenance to maintain unit efficiency.[86] Given that these considerations affect the rates charged to customers, "the Consumer Advocate recommends that the ratepayers receive some protection from adverse impacts that may result from the asymmetry

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[85]CA Opening Brief at 31 (citing HELCO response to CA-RIR-10, parts c and d). See also, id. (citing HELCO response to CA-RIR-13, part c.2)("The Company acknowledges that the implementation of the bi-directional annual target heat rate adjustment could result in heat rate increases or decreases (which benefit customers) not associated with the integration of renewable energy or clean energy resources that are automatically passed on to customers.") (emphasis in the original).

[86]CA Opening Brief at 38-39.

of information available with a downward-only automatic annual adjustment of the ECRC target heat rates."[87]

HELCO states that no change is necessary for the ECRC's automatic annual target heat rate adjustment. According to HELCO, a bi-directional (symmetrical) adjustment allows HELCO and customers to "more quickly and fairly recognize the impacts of changes in system efficiency due to changes in the system resources and conditions" without the need for lengthy review and approval processes.[88] As increasing amounts of renewable energy generation are integrated onto HELCO's system, HELCO anticipates that its fossil fuel production units will operate at lower operating points and/or will be used in a more flexible, but less fuel efficient manner.[89]

HELCO contends that the Consumer Advocate's reference to resolution of automatic annual target heat rate adjustments in other rate case proceedings is inappropriate, as those agreements were made within the context of reaching global settlements in those prior proceedings, and do not reflect the HECO Companies' official position on this particular issue.[90]

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[87]CA Opening Brief at 39.

[88]HELCO Opening Brief at 178.

[89]HELCO Opening Brief at 178.

[90]See HELCO Reply Brief at 29-30.

Additionally, HELCO affirms its position that integrating more variable renewable energy on its system is expected to decrease the efficiency of its fossil fuel units through their corresponding need to fulfill augmented regulating and frequency response requirements, as well as responding to the increased uncertainty in unit commitment and economic dispatch.[91] "As such, a downward only adjustment, as proposed by the Consumer Advocate, is not appropriate as it is simply 'one-sided' and creates uncertainty that will likely be in conflict with the integration of more renewable energy to the grid."[92]

Finally, HELCO denies that there is asymmetry in the availability of relevant information and the ability to timely react to that information, stating that "the tracking of the actual heat rate performance by fuel type is publicly reported quarterly in the Company's Energy Cost Factor filings with the Commission[,]" in which "actual heat rate performance is compared to the target heat rate, and the allowed heat rate recovery is determined based on the performance relative to the deadband."[93]

Upon review of the record and consideration of the arguments made in the Parties' briefings, the Commission declines

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[91]See HELCO Reply Brief at 33.

[92]HELCO Reply Brief at 34.

[93]HELCO Reply Brief at 35.

to make any modifications to the automatic annual target heat rate adjustment to HELCO's ECRC at this time. Rather, the Commission observes that it is addressing mechanisms to better incentivize fossil fuel costs and fuel use for all of the HECO Companies in its ongoing PBR investigation, Docket No. 2018-0088. The transformational scope of the PBR proceeding will allow the Parties to more broadly consider evidence and arguments regarding the balance and impact of fossil fuel use versus renewable energy integration with other relevant factors, such as complementary incentive mechanisms.

The Commission agrees, in principle, with the Consumer Advocate that consistent treatment of fuel and purchased power cost recovery across the HECO Companies is preferred. However, the Commission also recognizes HELCO's position that stipulated agreements on specific issues made in the context of global settlements in other proceedings have limited dispositive force, and are based on evidence and circumstances unique to those proceedings. Furthermore, the Commission observes that while there appears to be general agreement, in principle, that integrating increasing amounts of variable renewable energy onto HELCO's system may result in lower operating efficiencies, the nature, degree, and impact may vary depending on fuel type, load patterns, local conditions, and other variable factors.[94]

Accordingly, the Commission declines to modify the automatic annual target heat adjustment component of HELCO's ECRC at this time, but notes that examination of ECRC incentives for all the HECO Companies may occur in the context of the PBR proceeding.

B.

Issues Raised by the Commission

1.

Test Year Non-Fuel and Purchased Power O&M Expenses

As noted above, in Interim D&O 36761, the Commission, in pertinent part, denied HELCO's request for an interim increase in revenues of $2,791,000 and instead approved an interim adjustment which maintained HELCO's revenue at current effective revenues, such that there was a "zero increase" in rates.[95] Specifically, the Commission stated that it "is not convinced at this time that

[94]See e.g., CA Opening Brief at 28-30 (indicating that the impacts on fuel consumption resulting from increasing integration of renewable energy vary depending on fuel type); and at 31 (referring to HELCO's response to CA-RIR-10, acknowledging that, while accommodating variable renewable resources may result in a higher heat rate, "other operational considerations can result in substantial differences from year-to-year.").

[95]Interim D&O 36761 at 3-4.

HELCO has demonstrably shown it has undertaken reasonable efforts since HELCO's last general rate case to operate more efficiently and control its non-fuel-and-purchased-power O&M expenses."[96]

The Commission observed that the Parties' Settlement Letter provided for $72,824,000 in certain 2019 Test Year O&M expenses,[97] which represented an increase of approximately $10,561,000 when compared to the $62,263,000 in those O&M expense categories approved in HELCO's previous rate case (Docket No. 2015-0170), an average 17% increase.[98] This translates into a compound annual growth rate ("CAGR") of 5.17% over three years, which is well in excess of inflation. These non-fuel,

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[96]Interim D&O 36761 at 27. HELCO last general rate case was the subject of Docket No. 2015-0170 and was based on a 2016 test year.

[97]In particular, the Commission identified the categories of Production, Transmission, Distribution, Customer Accounts, Customer Service, and Administrative & General as reflecting marked increases between 2016 and 2019. Interim D&O 36761 at 28-29.

[98]Interim D&O 36761 at 28-29. In its Application, HELCO had originally requested an increase that reflected an increase of $77,729,000 in 2019 Test Year O&M expenses. Id. at 28.

In its Supplemental Information, HELCO appears to have incorporated some adjustments to its 2019 Test Year O&M expenses, such that the variance (increase) between 2016 and 2019 in these specific O&M categories is now $10,459,000, rather than $10,561,000. HELCO Supplemental Information, HELCO supplemental response to PUC-IR-HELCO-8, Attachment 1 at 1. However, for purposes of this discussion, this distinction is not material (HELCO continues to identify this variance as an average 17% increase).

non-purchased power O&M expenses represent expenses that are largely within the control of HELCO's management, unlike fuel or purchased power expenses.

In support of its requested increase in those identified O&M expense categories in its Direct Testimonies, HELCO pointed to a number of cost control efforts it had undertaken, including seventy-two O&M cost control efforts and eleven capital control measures, which are summarized in HELCO's exhibit HELCO-113.[99] However, in Interim D&O 36761, the Commission did not find these persuasive, noting the following:

1. Of the seventy-two O&M cost control efforts identified by HELCO in HELCO-113, only thirteen, totaling $183,471 in quantifiable cost savings, were shown to have begun since 2017, a figure which is dwarfed by the proposed $10,561,000 non-fuel, non-purchased power O&M increase in the Settlement Letter.[100]

2. A major component of the $183,471 in identified, quantifiable savings was attributable to $92,142 in estimated cost savings arising from HELCO's proposal to reduce the interest on

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[99]See Interim D&O 36761 at 29-30 (citing HELCO DT, HELCO-113).

[100]Interim D&O 36761 at 31-32.

customer deposits from 6% to 2%; however, it appears that this proposal was not included as part of the Settlement Letter.[101]

3. As the issue at hand is the increase in O&M expenses (non-fuel and purchased power) that have occurred between 2016 (HELCO's last rate case) and the 2019 Test Year, this is the relevant time period for examining HELCO's cost control efforts. HELCO's cost control efforts prior to and including 2016 are not relevant to the post-2016 $10,561,000 increase in O&M expenses. Furthermore, even if HELCO's pre-2017 identified cost saving measures are taken into account, the total quantified savings of $2,301,300 is still dwarfed by the overall increase in O&M expenses of $10,561,000.[102]

4. While not all of HELCO's cost saving efforts are easily quantifiable, it did not appear that HELCO made any attempts to provide operational metrics against which the Commission could judge the efficacy of HELCO's efforts.[103]

5. It did not appear that HELCO had made reasonable efforts to achieve cost reductions in non-fuel and purchased power O&M expenses in response to increasing expenses related to grid

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[101]Interim D&O 36761 at 32 (citing Settlement Letter, Exhibit 1 at 80-81). See also, HELCO Supplemental Information, HELCO-S-1601 at 3, line 30.

[102]Interim D&O 36761 at 32-33.

[103]Interim D&O 36761 at 33.

modernization, integration of renewable energy, and other Commission priorities.[104]

In its Supplemental Information, filed January 17, 2020, HELCO provided an update to exhibit HELCO-113 in the form of HELCO-S-1601. HELCO also included a discussion of these cost saving measures in its Opening Brief.[105]

Upon review of the record, including HELCO's updated explanations of cost control efforts and cost increases provided in its Supplemental Information, the Commission finds that HELCO has not convincingly demonstrated efficient operations or diligent implementation of cost control measures.

First, the Commission observes and is concerned generally about the large proportionate increase in the identified O&M expense categories that have occurred since 2016. As originally raised by the Commission in Interim D&O 36761, the average increase of 17% across these O&M expense categories (well in excess of inflation), on its face, is a concerning development. In comparison, the Commission observes that HELCO's test year customer counts and load forecasts have remained

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[104]Interim D&O 36761 at 34 (citing "County of Hawaii's Direct Testimony on the Hawaii Electric Light Company's Application for Approval of a General Rate Increase and Revised Rate Schedules and Rules," filed July 25, 2019 ("COH DT"), at 12-13).

[105]See HELCO Opening Brief at 26-34.

relatively steady in recent general rate case proceedings[106] (for example, HELCO's customer count grew approximately 1.7% between its 2016 test year and its 2019 Test Year),[107] reflecting substantial increases in the cost of service per customer.

Second, in reviewing HELCO's filings, including its updated exhibit HELCO-S-1601, the Commission does not find evidence of cost control measures of meaningful magnitude and relevant timing in the appropriate comparison period following HELCO's last rate case, i.e., post-2016. The Commission observes that even considering HELCO's updated exhibit HELCO-S-1601, only approximately $536,329 in cost savings are estimated during this time period.[108] While reflecting greater cost savings than in the original HELCO-113 (i.e., $183,471), when this updated estimate of $536,329 is compared to the $10,561,000 increase in

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[106]See Settlement Letter, Exhibit 1 at 20 (customer count of 86,105 and 1,061.7 in GWh sales for 2019 Test Year); D&O 35559 at 19 (customer count of 84,699 and 1,040.7 in GWh sales for 2016 test year); and In re Haw. Elec. Light Co., Inc., Docket No. 2009-0164, Decision and Order No. 30168, filed February 8, 2012 ("D&O 30168"), at 19 (customer count of 81,083 and 1,122.6 in GWh sales for 2010 test year).

[107]86,105 – 84,699 = 1,406. 1,406/84,699 = 1.6599%.

[108]See HELCO Supplement Information, HELCO-S-1601 at 1-8, lines 3, 28, 29, 51, 53, 69, 70, 71, and 73. The Commission notes that some cost savings measures that were identified in HELCO-113 are no longer included in HELCO-S-1601, and omits these from the cost savings quantified here.

O&M expenses since HELCO's last rate case, it is still of such small magnitude that it is not convincingly meaningful.[109]

Third, while HELCO has provided some explanations of the increases in expenses since its 2016 test year rate case,[110] the Commission observes that many of these explanations consist of general descriptions of cost items, but do not explain how or whether these items were obtained in a cost-efficient manner. For example, explanations for certain O&M variances are related to routine upkeep activities, such as maintenance and inspection work and vegetation management.[111] The nature and magnitude of these ongoing activities has not been demonstrated to have changed in any fundamental or substantial respects. Nor has HELCO demonstrated why frequent budget adjustments are necessary rather than reflecting efficient continuity expected with well-managed operations and long-term planning.

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[109]In HELCO-S-1601, HELCO argued that even though some cost savings measures were implemented before 2017, the incremental savings that have accrued between 2017-2019 should be considered. HELCO-S-1601 at 2-4. This would add approximately $338,219 in cost savings. See id. at lines 22, 23, 24, 34, 35, and 36. Even with these amounts, total cost savings between 2017-2019 would be $874,648 (536,329 + 338,219), which is still significantly smaller than the $10,561,000 O&M cost increase.

[110]See HELCO Supplemental Information, HELCO supplemental response to PUC-HELCO-IR-8.

[111]See HELCO Supplemental Information, HELCO supplemental response to PUC-HELCO-IR-8, Attachment 2-2 at 1-3 (a4, a6, a9, and a10), and Attachment 2-3 at 1-3 (b1, b2, b4, c2, and c3).

In addition, the supporting workpapers for many of the pertinent O&M divisions, appear to consist primarily of tallies and averages of historical expenses, Intercompany Billings ("ICBs"), and/or intercompany services as the explanatory bases for justifying their 2019 Test Year budgets.[112] However, merely identifying trends, documenting historical expenditures or identifying established inter-company accounting conventions does not constitute provision of sound justification for substantial increases in expenses. As noted above, HELCO has not convincingly demonstrated diligent cost control measures in recent years. To the extent its 2019 Test Year O&M estimates are based on increasing historical expenditures, this would appear to institutionalize cost inefficiencies, rather than promote reasonable cost control and efficient budget planning.

Moreover, cost variances attributed to ICBs are related to various projects, programs, and initiatives undertaken by the Hawaiian Electric Companies collectively, which are then apportioned among HECO, HELCO, and MECO according to a

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[112]See "Hawaii Electric Light Company, Inc. 2019 Test Year; Workpapers in Support of Direct Testimonies, filed December 14, 2019 ("HELCO-WP"), Book 2, HELCO-WP-702, at 1-3 (Systems Operations and Planning Division), HELCO-WP-802, at 1-13 (Production Division); Book 3, HELCO-WP-902, at 1-3 (Distribution Division), HELCO-WP-1102, at 1-5; Book 4, HELCO-WP-1202A at 1-2 (Accounting Division), HELCO-WP-1202B, at 1 (President's Office), HELCO-WP-1602, at 1-3 (Administration); and Book 5, HELCO-WP-1902, at 1-2.

pre-determined formula.[113] Thus, to the extent that HELCO's O&M expense are based on these ICBs, this appears to reflect a formulaic apportionment of HECO's O&M expenses to HELCO, without objective evaluation as to the prudence of the underlying amount HELCO seeks to recover.[114]

Fourth, the Commission takes administrative notice of the recent HECO Management Audit prepared in HECO's ongoing rate case, Docket No. 2019-0085, where an independent auditor identified a number of structural and process improvements within HECO that provide an opportunity to realize between $25 million

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[113]See HELCO Supplemental Information, HELCO supplemental response to PUC-HELCO-IR-8, Attachment 2-1, at 1-3 (a1, a2, a3 and b1).

[114]Furthermore, as noted below, a recent management audit of HECO has identified a number of areas needing improvement, which the auditor estimates would produce substantial operational efficiencies, which further raises the issue of the reasonableness of HECO's underlying O&M expenses being apportioned to HELCO. See In re Hawaiian Elec. Co., Inc., Docket No. 2019-0085, "Management Audit of the Hawaiian Electric Company (HECO); Final Report," filed May 13, 2020 ("HECO Management Audit").

For example, the Commission observes that a number of O&M variance explanations are based on the goal of acquiring and integrating larger amounts of renewable energy and related grid modernization efforts. See HELCO Supplemental Information, HELCO supplemental response to PUC-IR-HELCO-8, Attachments 2-1 thru 2-9. On this subject, the HECO Management Audit found that there was a "lack of integration and coordination of responsibilities for [Renewable Portfolio Standards] related activities in the Company[,]" and raised concerns that "[Renewable Portfolio Standards] support appears to have been frequently used as an unchallenged reason to increase resources and costs." HECO Management Audit at 53.

and $26.5 million in operational savings a year by 2022.[115] These opportunities for improvement have been acknowledged by HECO, and have resulted in a corresponding pledge to provide a sustained $25 million in annual savings by the end of 2022.[116]

The Commission believes the HECO Management Audit's findings are relevant here. While commissioned to examine HECO, the independent auditor observed that "[i]ncreasingly[,] the 3 companies [(HECO, HELCO, and MECO)] have transitioned to a One Company Model with most services and functions being provided to all 3 Companies through a common management structure . . . . Accordingly, we will use the collective term HECO in this report to include HECO and One Company activities unless specifically stated otherwise."[117] To the extent significant operational efficiencies were identified in the Management Audit, and acknowledged by HELCO's parent company, this raises concerns about the O&M expenses proposed by HELCO in this proceeding,

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[115] See HECO Management Audit at 8-13.

[116] See Docket No. 2019-0085, "Hawaiian Electric Company, Inc.'s Statement of Position on the Management Audit; and Certificate of Service," filed June 17, 2020.

The Commission recognizes that the acknowledged customer savings benefits arising from the Management Audit are expected to be delivered beginning after 2020, but clarifies its understanding that these identified savings are intended to address existing operational efficiencies which are presumably incorporated into existing current effective rates.

[117] HECO Management Audit at 8. See also, id. at 46.

as well as those which are currently incorporated into existing current effective rates.[118]

The Commission also observes that HELCO continues to benefit from the automatic adjustments of its decoupling mechanisms, including the RBA and RAM provision tariffs, which allow HELCO to accrue and ultimately recover a capped amount of interim costs and expenses.[119] This has provided, and continues to provide, HELCO with interim relief in the form of increases to target revenue and current effective rates.

In sum, based on a review of the entire record in this proceeding, and considering the attendant and relevant circumstances, the Commission finds that HELCO has not identified convincing evidence of cost saving measures that demonstrate efficient and diligent cost control associated with and in proportion with the substantial increases in costs that have occurred in the interim period since its previous rate case.

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[118]In pertinent part, the Hawaiian Electric Companies have proposed that a portion of the $25 million in estimated annual savings identified in the HECO Management Audit be returned to HELCO customers as part of the PBR proceeding. See Docket No. 2018-0088, "Phase 2 Statement of Position of the Hawaiian Electric Companies; Exhibits 'A' Through 'Q'; and Certificate of Service," filed June 18, 2020, Exhibit B3 (70% of HECO Management Audit savings going to HECO customers, 15% going to HELCO customers, and 15% going to MECO customers).

[119]See, e.g., Order No. 37150, filed May 28, 2020 (Non-Docketed), (adjusting HELCO's target revenues to allow HELCO to recover certain accrued interim costs and expenses).

The Commission recognizes the on-going challenges HELCO faces in providing reliable service to its customers while modernizing its system to meet the State RPS goals and expand customer choice. However, cost control is critical to ensuring that this transition does not needlessly exacerbate what are already the nation's highest electricity rates. The Commission expects HELCO to diligently seek operational efficiencies and implement more aggressive initiatives to rein in costs while providing reliable service and facilitating transformation. The Commission believes that good organization, management, planning, preparation, execution, and cost tracking and verification can deliver desired results without large increases to costs.

Finally, the Commission acknowledges the unprecedented and challenging economic conditions facing HELCO ratepayers. As Hawaii Island and the rest of the State address record levels of unemployment and an uncertain economic future, it is especially important to ensure that proper cost control measures and operational efficiencies are reflected in the rates charged for what many consider an essential service.

In light of the above, the Commission affirms its interim findings regarding this issue and denies the proposed increase in revenues of $1,748,000[120] such that HELCO's final rates will be maintained at current effective rates.[121]

C.

Deferred Issues

1.

Cost Allocation

A cost of service study is a ratemaking tool utilized to determine the cost responsibilities of the different rate classes served by a utility. In its Direct Testimony, HELCO presented results from an embedded cost of service study and a marginal cost study.[122] HELCO presented the results of the embedded cost of service study using two different methodologies of classifying distribution costs: (1) the minimum system method that the Hawaiian Electric Companies have used in their respective recent rate cases; and (2) the Consumer Advocate's method of classifying all distribution network costs as demand-related.[123]

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[120]See HELCO Statement of Probable Entitlement at 4 (Table 2, line 2) and Attachment 5 at 1.

[121]See Interim D&O 36761 at 35.

[122]See Settlement Letter, Exhibit 1 at 102 (citing HELCO DT, HELCO T-23 and HELCO-2303 to HELCO-2308).

[123]See Settlement Letter, Exhibit 1 at 102.

In its Direct Testimony, "[HELCO] proposed to allocate the revenue increase among the rate classes based on assigning the dollar amount that results from applying an increase to Schedule R of 125% of the system average increase, with corresponding lower increases to the commercial schedules."[124]

In response, the Consumer Advocate proposed an equal percentage increase across all rate classes.[125] However, the Consumer Advocate also noted concerns "arising from the emergence of large sub-classes of customers within each traditional customer class that employ distributed energy resources ('DER') that significantly impact the energy usage patterns and revenue contributions to fixed costs for [an] entire class[,]" and "indicated that it intends to develop and present its views on the relevant cost of service, market structure, and DER value considerations in Phase 2 of the Commission's proceeding, Docket No. 2014-0192[.]"[126]

As stated in the Settlement Letter:

> For purposes of reaching a global settlement, the Parties agree that a determination of appropriate cost-of-service methodology is not necessary to establish the allocation of revenue increase in this

[124]Settlement Letter, Exhibit 1 at 102 (citing HELCO DT, HELCO-23 at 12-14, HELCO-2303, and HELCO-2305).

[125]Settlement Letter, Exhibit 1 at 103 (citing CA DT, CA-T-2 at 153-54).

[126]Settlement Letter, Exhibit 1 at 103 (citing CA DT, CA-T-2 at 143-45).

> case that [sic] for both the interim rate increase and the final rate increase in this case . . . . The Parties agree that final rates would also be designed so that the proposed base revenues for each rate class would reflect the same percentage increase over present base revenues.[127]

Upon review, the Commission finds that the revenue allocation agreed to by the Parties is reasonable for ratemaking purposes and adopts such allocation for HELCO's 2019 Test Year.

2.

Rate Design

Rate design is the process through which a utility's revenue requirement is converted into a specific pricing structure for each customer class. This pricing structure is usually composed of some combination of customer charges, energy charges, and demand charges, and is formalized in the utility's tariffs.

In designing its proposed rates, HELCO states it considers the following factors: 1) production of the Company's test year revenue requirements; 2) rate classes' cost of service; 3) revenue stability; 4) rate stability and rate continuity; 5) impact on customers; 6) customer's choice; 7) provision of fair and equitable rates; 8) simplicity, ease of understanding, and ease of implementation; and 9) encouragement of customer load

[127]Settlement Letter, Exhibit 1 at 103.

management.[128] HELCO states that its proposed rate design objectives include "aligning the rate elements closer to the cost components, minimizing intra-class subsidy, and moving closer to more efficient pricing that provides more accurate price signals."[129]

Most of HELCO's customers are on rates consisting of a customer charge, non-fuel energy charge, and additional provisions such as a minimum bill, demand charge for some non-residential customers, the energy cost recovery clause, purchase power adjustment charge, and other surcharges. More advanced rates such as time-of-use ("TOU") and interruptible service rates currently exist, though with limited availability and uptake by customers.

A summary of the Parties' respective proposed rate designs can be found in the Settlement Letter.[130] For purposes of settlement, the Parties agreed to the follow changes to HELCO's rate schedules:[131]

Schedule R (Residential Service): Non-fuel energy charge modified to recover the remainder of the revenue increase.

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[128]See HELCO DT, HELCO T-23 at 23-24.

[129]HELCO DT, HELCO T-23 at 24.

[130]See Settlement Letter, Exhibit 1 at 103-105.

[131]See Settlement Letter, Exhibit 1 at 105-107.

<u>Schedule G (General Service Non-Demand):</u> Increase to customer charge for single and three phase service to $35.00 and $61.00, respectively; non-fuel energy charge modified to recover the remainder of revenue increase after change to customer charge is implemented.

<u>Schedule J (General Service Demand):</u> Update to Service Voltage Adjustment to reflect 2019 Test Year assumptions, as proposed by HELCO; increase single phase and three phase customer charge to $49.00 and $75.00, respectively; increase demand charge to $14.00 per billed kW; retain existing 11-month demand ratchet language, but provide for adjustment for customers who participate in an energy efficiency program run by the PBF administrator to install energy efficiency measures; non-fuel energy charge modified to recover the remainder of revenue increase after change to customer charge is implemented.

<u>Schedule P (Large Power Service):</u> Update to Service Voltage Adjustment to reflect 2019 Test Year assumptions, as proposed by HELCO; increase demand charge to $27.00 per billed kW; retain existing 11-month demand ratchet language, but provide for adjustment for customers who participate in an energy efficiency program run by the PBF administrator to install energy efficiency measures; non-fuel energy charge modified to recover the remainder of revenue increase after change to demand charge is implemented.

Schedule F (Street Light Service): Revenue increase allocated to Schedule F to be recovered through increase in revised Non-Fuel Energy Charge.

Schedule U (Time-of-Use Service): Modified such that existing differences in demand and energy charges to Schedule J are retained.

Schedule TOU-R (Residential Time-of-Use): Modified to reflect changes to Schedule R rates for the 2019 Test Year, while retaining existing structure, in a manner similar to changes made in HECO's 2017 test year (Docket No. 2016-0328).

Schedule TOU-G (Small Commercial Time-of-Use): Modified such that non-fuel energy discounts and premiums relative to the regular rate schedule in the existing Schedule TOU-G is retained.

Schedule TOU-J (Commercial Time-of-Use): Modified such that non-fuel energy discounts and premiums relative to the regular rate schedule in the existing Schedule TOU-J is retained; modified demand charge to establish a ratcheted on-peak demand charge and a non-ratcheted excess demand charge, as proposed by HELCO.

Schedule TOU-P (Large Power Time-of-Use): Modified such that non-fuel energy discounts and premiums relative to the regular rate schedule in the existing Schedule TOU-P is retained; modified demand charge to establish a ratcheted on-peak demand charge and a non-ratcheted excess demand charge, as proposed by HELCO.

Schedule TOU EV (Residential Time-of-Use Service with Electric Vehicle Pilot): Modified to reflect changes to Schedule R rates for the 2019 Test Year, while retaining existing structure, in a manner similar to changes made in HECO's 2017 test year (Docket No. 2016-0328).

Schedule TOU-RI (Residential Interim Time-of-Use Service): Modified to reflect methodology established for Schedule TOU-RI in Docket No. 2014-0192.

Schedule EV-F (Commercial Public Electric Charging Facility Service Pilot): Modified to reflect methodology established for Schedule EV-F in Docket No. 2016-0168.

Schedules E-BUS-J and E-BUS-P (New E-Bus rates): Modified to reflect methodology established for these schedules in Tariff Transmittal No. 18-06.

Modifications to other Tariff Rules: Modifications to Rule Nos. 22, 23, 24, and 25 as proposed by HELCO; Rule No. 6 modified to remove existing provisions that provide for cash refunds and enable endorsed/signed cancellation receipts for returned deposits.

Upon review, and for purposes of this final decision and order, the Commission finds that the rate design stipulated by the Parties in the Settlement Letter is reasonable. Overall, HELCO’s rate design remains largely unchanged, with relatively small increases to certain commercial customer charges.

In addition, the adjustments to HELCO’s various TOU schedules are largely based on incorporating updated methodologies. For the larger commercial customers, the demand ratchet adjustment for energy efficiency participants is consistent with MECO’s Schedule P tariff and appears reasonable.

Furthermore, the Commission has recognized the need for a transition in the way costs are allocated and rates are designed. For that reason, cost allocation and rate design are currently being assessed in the new DER docket, Docket No. 2019-0323. The Commission intends to focus its investigation into advanced rate designs in that proceeding and may subsequently modify HELCO’s rate design based on the results.

In sum, the Commission finds that the cost allocation and rate design agreed to by the Parties as reflected in the Settlement Letter are reasonable.

3.

Proposed RBA Rate Adjustment Mechanism Modifications

As noted in Interim D&O 36761, “HELCO proposes to change the RBA Rate Adjustment from a per kWh energy charge to a percentage of base revenues charge that includes the energy (without fuel and purchased power), demand, customer, and minimum charges, and will thus make the RBA surcharge 'non-bypassable.'"[132] The Consumer Advocate did not oppose this proposed change,[133] but there was objection from HPVC.[134] As a result, the Commission deferred resolving this issue in Interim D&O 36761 and indicated that it would further examine this issue.[135]

HELCO maintains that its proposed change will help ensure that all customers "pay a fair share of the RBA surcharge."[136] According to HELCO, "[u]nder the current kWh energy-based surcharge design, customers with no billed kWh energy could avoid the RBA surcharge[;]" i.e., "a residential customer with a minimum charge would not have any billed kWh and, therefore, would avoid the RBA surcharge."[137] "Applying the RBA surcharge on a percentage basis of the customer's base bill would make the RBA surcharge non-bypassable and ensure that all customers make some contribution to the RBA."[138]

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[132]Interim D&O 36761 at 45 (citing HELCO DT, HELCO T-23 at 45).

[133]See CA DT, CA-T-2 at 125-127.

[134]See Interim D&O 36761 at 46 (citing "Exhibit List, Direct Testimony of Justin R. Barnes; and Certificate of Service on Behalf of [HPVC]," filed July 25, 2019 ("HPVC DT"), at 16-17).

[135]Interim D&O 36761 at 47-48.

[136]HELCO Opening Brief at 190.

[137]HELCO Opening Brief at 190.

[138]HELCO Opening Brief at 190.

HPVC maintains that HELCO's RBA "currently achieves two complementary goals: it allows HELCO to recover its revenue requirement independently of sales and it removes HELCO's disincentive to accept more renewable energy and energy efficiency measures."[139] According to HPVC, HELCO's proposed modification to the RBA Rate Adjustment "would make the RBA Rate Adjustment non-bypassable, meaning that customers would not be able to reduce the impact of the RBA on their bills by reducing their energy consumption through conservation, energy efficiency, or installing a DER."[140] Accordingly, HPVC contends that HELCO's proposed modification undermines this second goal without any corresponding benefit.[141] Rather than alter fixed charges automatically through the RBA, HPVC states that a cost of service study is necessary, which would allow the Parties, Participants, and Commission to determine which costs should properly be designated as "customer-related" and collected through fixed charges.[142]

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[139]HPVC Opening Brief at 4. In essence, the RBA decouples HELCO's recovery of revenues from its energy sales. Ensuring that HELCO recovers its revenue requirement independent of energy sales removes potential disincentives for HELCO to inhibit renewable energy and energy efficiency choices by customers, which might otherwise reduce HELCO's energy sales.

[140]HPVC Opening Brief at 2-3.

[141]HPVC Opening Brief at 4.

[142]HPVC Opening Brief at 5. While HPVC acknowledges that HELCO did file a cost of service study as part of its Application, HPVC submits that HELCO's study "did not distinguish between

Under the existing RBA tariff, HELCO's final rates are used to establish target revenues, which determine the amount of revenue HELCO may accrue and ultimately recover under the RBA Provision tariff. The "target" revenues[143] approved for recovery are accrued in the RBA and compared with recorded revenues collected from customers. The balance of any under or over collection of revenues is reconciled though the RBA Rate Adjustment, which is implemented as a cents/kWh energy charge.

In general, HELCO's target revenues are predominantly based on fixed costs, which do not change appreciably as a result of changes in energy sales or short-term changes in demand. Consequently, as the amount of the RBA Rate Adjustments increase, more fixed costs are collected through cents/kWh-denominated energy charges, such that larger commercial customers, who consume more electric energy per customer, tend to bear an increasing and disproportionate share of fixed costs.[144] In addition,

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customers with DERs and customers without DERs in allocating rate base costs or operating expenses across its customers." Id. at 7.

[143]"Target Revenues" are defined in the RBA Provision tariff as the electric sales revenue approved in the most recent applicable general rate case order, as adjusted subsequently by tariff and/or Commission order, minus fuel and purchased power expense and minus revenue taxes.

[144]See e.g., CA DT, CA-T-2 at 129 (observing that "[t]he rate impacts resulting from modification of the RBA to a percentage surcharge would systematically recover higher revenues from residential and small commercial customers on Schedules R and G, respectively, while reducing rates for larger customers on

customers who are able to take advantage of DERs and other renewable energy options and energy efficiency measures thereby experience a reduction in their kWh consumption, which decreases their share of increases to target revenues recovered through the RBA Rate Adjustment.[145] The impact of these tendencies has intensified recently with the increased utilization of target revenue adjustments to implement a growing number of interim cost recovery mechanisms.[146]

Upon considering the circumstances, the Commission believes that it is more prudent to examine this issue in the context of the Commission's DER investitive proceeding,

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Schedules G [sic] and J that have higher load factors from more intensive use of kWh."). The Commission assumes the Consumer Advocate meant to say "Schedules P and J." See id. At 128 (estimating that a change to a percentage of base revenues surcharge from the current kWh energy-based surcharge would shift class revenue responsibility from Schedules J and P towards Schedules R and G).

[145] See, HELCO DT, HELCO T-23 at 45; see also, HELCO Opening Brief at 190.

[146] In addition to reconciliation of any under/over collection of electric sales revenue, the RBA Rate Adjustment is affected by changes to HELCO's accrued target revenues resulting from several interim revenue adjustment mechanisms, including the Revenue Adjustment Mechanism ("RAM"), Major Projects Interim Recovery mechanism ("MPIR"), various Performance Incentive Mechanisms ("PIMs"), an adjustment to pass on benefits from the recent Tax Cuts and Jobs Act, and other ad hoc program and resource cost recovery adjustments approved by the Commission. There is also a robust suite of performance mechanisms under consideration in the Performance-Based Regulation proceeding (Docket No. 2018-0088), which are also expected to utilize target revenues to implement interim revenue adjustments.

Docket No. 2019-0323. In Docket No. 2019-0323, among other things, the Commission is investigating advanced rate design for HELCO, HECO and MECO. The proposed modifications to HELCO's RBA Rate Adjustment are equally pertinent to HECO and MECO's RBA Rate Adjustment tariffs, and the Commission finds that examining them together in the context of the DER proceeding will allow for a more coordinated and efficient examination of the proposed modification and related issues. In addition, the Commission notes that both the Consumer Advocate and HPVC, who have addressed this issue in this proceeding, are also parties in Docket No. 2019-0323 as well.

Accordingly, the Commission declines to modify HELCO's RBA Rate Adjustment at this time, but will address this issue in the context of the PBR proceeding.

4.

Proposed ECRC Modifications

Blue Planet proposes a number of modifications to HELCO's ECRC,[147] including: (1) incorporating a risk-sharing feature to incentivize HELCO to better manage its fossil fuel use

[147]The Commission admitted Blue Planet as a Participant to this proceeding "on the limited issue of whether HELCO's ECRC is just and reasonable [i.e., Issue 3.c and d]." Order No. 36307 at 27.

and costs; (2) phasing out fuel cost adjustment provisions for fossil fuel use over the next 25 years (i.e., by 2044); and (3) eliminating the heat rate adjustment of the ECRC.[148]

Blue Planet argues that incorporating these modifications is consistent with guidance provided by the State Legislature and the Commission.[149] Blue Planet summarizes this guidance into four broad objectives: (1) fairly sharing the risk of fuel price increases between HELCO and its customers; (2) incentivizing HELCO to manage and lower its fuel costs; (3) encouraging greater use of renewable energy; and (4) accomplishing other related regulatory goals, e.g., mitigating sudden cost changes, preserving the utility's financial integrity, and avoiding frequent rate cases.[150] Blue Planet contends that HELCO's current ECRC does not adequately address these policy objectives.[151]

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[148]"Blue Plant Foundation's Testimony and Exhibit List; Direct Testimony of Ronald J. Binz; Exhibits '1' to '3'; and Certificate of Service," filed July 25, 2019 ("BP DT"), at 8.

[149]See BP DT at 9-14.

[150]BP DT at 14.

[151]See BP DT at 14-22.

Blue Planet proposes "three options for modifying the incentives within the ECRC while retaining its desirable characteristics[,]"[152] including:[153]

> Option A: "[T]he ECRC could be modified to pass through only part of the increases and decreases of fuel costs."[154]
>
> Option B: "[P]ass through only those increases or decreases that exceed a certain threshold."[155]
>
> Option C: "[C]onsider phasing out the ECRC [for fossil fuels] over 25 years (2019-2044) in a way that doesn't penalize HELCO if it continues expeditiously to reduce dependence on fossil fuels. Fossil fuel costs would continue to be an allowable expense, but the ability of the utility to shift fuel cost risk to customers through the ECRC would be progressively diminished."[156]

Alternatively, Blue Planet proposes combining Options A and B or Options A and C as potential ECRC modifications.[157]

Ultimately, Blue Planet recommends a combination of its proposed Options A and C - i.e., an ECRC risk-sharing mechanism which features a partial pass-through of the variance of utility

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[152]BP DT at 22.

[153]The following options are also summarized in table format in BP's DT at 27.

[154]BP DT at 22.

[155]BP DT at 23.

[156]BP DT at 25-26.

[157]BP DT at 27.

fuel costs from base costs at a ratio of 5% to the utility and 95% to HELCO's customers, with a maximum annual revenue exposure cap of +/- $1.0 million.[158] Blue Planet states that this is consistent with the recommendations it has previously made for HECO and MECO in their most recent rate case proceedings, Docket Nos. 2016-0328 and 2017-0150.[159]

In the Settlement Letter, the Parties note that while HELCO did not propose implementing such modifications to its ECRC in its Direct Testimony, it acknowledged that:

> [I]f the Commission were to impose a fossil fuel cost risk sharing mechanism . . . [HELCO] would suggest that such a mechanism mirror [HECO's] proposed implementation . . . of the fossil fuel cost risk sharing mechanism imposed on [HECO] in its 2017 test year rate case: exposure to 2% of the risk of the change in fossil fuel prices for the Company's fossil generation relative to a baseline price that is reset annually, with annual exposure capped at +/- $600,000.[160]

The Settlement Letter further notes that the Consumer Advocate, in its Direct Testimony, "concurred with the maximum exposure of $600,000 to be consistent with the approach used for [HECO]."[161]

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[158]BP DT at 28.

[159]BP DT at 28

[160]Settlement Letter, Exhibit 1 at 14 (citing HELCO T-23 at 40-41)(internal citations omitted).

[161]Settlement Letter, Exhibit 1 at 14 (citing CA-T-5 at 25).

"For purposes of reaching a settlement," HELCO and the Consumer Advocate have agreed, among other things:

> To implement [HELCO's] proposal for fossil fuel cost risk sharing of exposure of 2% of the risk of the change in fossil fuel prices for the Company's fossil [fuel] generation relative to a baseline price that is reset annually, with annual exposure capped at +/- $600,000, to be implemented at the time of implementation of final rates.[162]

In Docket Nos. 2016-0328 and 2017-0150, Blue Planet proposed nearly identical risk-sharing proposals for HECO's and MECO's ECRCs, which have been explored and approved, with modifications, by the Commission in those dockets.[163] In both of those dockets, the Commission provided a thorough discussion of the policy considerations of Blue Planet's proposals, including whether, and to what extent, HECO's and MECO's then-existing ECRCs appropriately and sufficiently complied with the policies and guidance provided by the Hawaii Legislature, particularly as set forth in HRS § 269-16(g).[164] These discussions

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[162]Settlement Letter, Exhibit 1 at 14.

[163]See Docket No. 2016-0328, Final Decision and Order No. 35545, filed June 22, 2018 ("D&O 35545"), at 53-84; and Docket No. 2017-0150, Decision and Order No. 36219, filed March 18, 2019 ("D&O 36219") at 27-46. The Commission takes administrative notice of the records in Docket Nos. 2016-0328 and 2017-0150, as it pertains to this related issue, including the Commission's relevant findings and conclusions.

[164]See D&O 35545 at 57-72; and D&O 36219 at 34-40.

can be applied to what is essentially the same testimony and positions of the Parties and Participant in this proceeding.

In Docket No. 2016-0328, where the Commission first considered these proposed modifications, the Commission approved risk-sharing adjustments for HECO's ECRC, but incorporated a lower percentage of utility risk exposure and a lower maximum annual cap on utility revenue exposure than what was proposed by Blue Planet.[165]

At the same time, the Commission declined to implement a phase-out of the ECRC adjustments for fossil fuels as recommended by Blue Planet, noting that the amount of fossil fuel used by utilities is expected to decrease substantially over the next twenty years in conjunction with their compliance with the existing RPS.[166] In this respect, the Commission observed that the existing standards should correspondingly reduce the magnitude and necessity of ECRC adjustments for fossil fuels.[167]

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[165]See D&O 35545 at 69 and 72-84 (approving a modification to HECO's ECRC to incorporate a 2% risk-sharing component with a +/ $2.5 million annual revenue exposure cap, rather than the 5% risk-sharing component and $20 million annual revenue exposure cap proposed by Blue Planet). See also, D&O 36219 at 40-46 (approving a similar modification to MECO's ECRC to incorporate a 2% risk-sharing component with a +/-$633,000 annual revenue exposure cap, rather than the 5% risk-sharing component and $4.2 million annual revenue exposure cap proposed by Blue Planet).

[166]See D&O 35545 at 70.

[167]See D&O 35545 at 70.

Nor did the Commission approve Blue Planet's proposal to eliminate the existing heat rate efficiency incentive provisions in the ECRC.[168] The Commission observed that the deadbands applied to the heat rates in the ECRC already serve to "eliminate" the effect the heat rate efficiency incentive provisions may have on integrating renewable energy resources within the bounds of the deadbands.[169]

Furthermore, the Commission noted that Blue Planet's proposed partial ECRC adjustment mechanism could be implemented in conjunction with the existing heat rate efficiency incentive provisions.[170] The Commission concluded that elimination of the heat rate efficiency incentive is not warranted at this time and clarified that the Commission's approval of a partial ECRC adjustment of fossil fuel expense is intended to complement, not replace, the existing heat rate efficiency mechanism.[171]

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[168]See D&O 35545 at 70-71.

[169]D&O 35545 at 70. Within the bounds of the heat rate deadbands, fuel expenses are passed straight through to customers without incentive adjustment. Thus, the utility need not worry about the impact of renewable energy resources on its plant efficiency within the deadband parameters. In its reviews of the bounds of the heat rate deadbands, the Commission has allowed progressive increases in the deadbands that decrease the heat rate mechanism effects to a deliberately measured extent, to accommodate changing circumstances in the operation of the utility's system. Id. at 70-71.

[170]See D&O 35545 at 71.

[171]D&O 35545 at 71.

The Commission subsequently affirmed these considerations and adopted them in support of making similar modifications to MECO's ECRC in Docket No. 2017-0150.[172]

The Commission believes that the same policy considerations and reasoning is applicable to Blue Planet's proposed modifications to HELCO's ECRC. As noted above, Blue Planet's proposed modifications to HELCO's ECRC are substantively similar to those Blue Planet proposed for HECO and MECO in Docket Nos. 2016-0328 and 2017-0150 and, under the circumstances, compel a consistent result.

In this regard, the Commission observes that the Parties have reached a similar conclusion in their Settlement Letter, in which they agree to HELCO's proposal, which "mirror[s] [HECO's] proposed implementation . . . of the fossil fuel cost risk sharing mechanism imposed on [HECO] in its 2017 test year rate case [i.e., Docket No. 2016-0328][.]"[173]

In light of the above, the Commission will not adopt Blue Planet's proposed risk-sharing mechanism, in toto, but will modify the apportionment of revenue exposure and overall annual maximum utility revenue exposure in a manner consistent with its

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[172]See D&O 36219 at 36-40.

[173]Settlement Letter, Exhibit 1 at 14 (internal citations omitted).

decisions for HECO and MECO in Docket Nos. 2016-0328 and 2017-0150. Specifically, the Commission approves the Parties' Settlement Letter on this issue, which provides for a fossil fuel cost risk-sharing mechanism which exposes HELCO to 2% of the risk of the change in fossil fuel prices for HELCO's fossil fuel generation, relative to a baseline price that is reset annually, with an annual exposure capped at +/- $600,000 annually.[174]

As noted in Docket Nos. 2016-0328 and 2017-0150, the above modifications to HELCO's ECRC apply only to changes in the costs of fossil fuels associated with operation of HELCO's generation facilities. HELCO's ECRC shall continue to provide full adjustment and pass-through of purchased energy expense.[175]

In the Settlement Letter, the Parties agree that the risk-sharing modification to HELCO's ECRC shall be "implemented at the time of implementation of final rates."[176] Consistent with the rulings in this Decision and Order, including those above relating to the fossil fuel cost risk-sharing mechanism and the Commission's related ruling on HELCO's automatic annual target heat rate adjustment, HELCO shall submit a revised ECRC tariff for the Commission's review and approval. HELCO shall submit its proposed

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[174]Settlement Letter, Exhibit 1 at 14.

[175]See D&O 35545 at 65-66, 76-77 and 178; and D&O 36219 at 45-46.

[176]Settlement Letter, Exhibit 1 at 14.

revised ECRC tariff within thirty (30) days of this Decision and Order.

Following HELCO's submission of its proposed revised ECRC tariff, the Consumer Advocate and Blue Planet will have fifteen (15) days to review the draft and file comments with the Commission. After the receipt of all timely comments, the Commission will render a decision on HELCO's proposed revised ECRC tariff, including an effective date.

5.

Issues Raised In The County's Post-Interim Briefing

In its Opening Brief, the County objected to the proposed increase in non-fuel O&M costs, arguing that a number of the proposed increases were not properly substantiated and that HELCO's cost control measures to date have been underwhelming.[177] In addition, the County recommended that the Commission "order a shareholder-funded benchmarking study to inform future rate cases and other docket proceedings."[178]

In light of the Commission's findings in Section II.B.1., supra, regarding HELCO's supplemental arguments in support of the proposed 2019 Test Year O&M increases and the

[177]See COH Opening Brief at 2-8.

[178]COH Opening Brief at 2.

decision to maintain revenues at current effective rates, the Commission observes that the County's first issue has been resolved in its favor.

Regarding the County's second request, the Commission declines to order an O&M benchmarking study at this time. An O&M benchmarking study, while potentially valuable, presents significant challenges, such as finding appropriate peer utilities against which to measure HELCO's performance. In particular, the isolated geographic nature of HELCO's grid, unique combination of regulatory mechanisms (e.g., revenue decoupling, interim RAM, with annual cap, and MPIR adjustment mechanism), and organizational structure (subsidiary of another electric utility, HECO, which itself is a subsidiary of a holding company, Hawaiian Electric Industries, Inc.) make direct comparison of HELCO's O&M expenses with other utilities difficult.

Furthermore, the Commission notes that the County has proposed a similar benchmarking study for all of the Hawaiian Electric utilities in the context of the PBR proceeding.[179] The Commission believes that the PBR proceeding is the more appropriate forum in which to consider the merits of a

[179] See In re Public Util. Comm'n, Docket No. 2018-0088, "County of Hawaii's Initial Statement of Position; and Certificate of Service," filed June 18, 2020, at 22.

benchmarking study and will continue to evaluate the County's proposal in that proceeding.

D.

Remaining Test Year Determinations

With regard to the remaining 2019 Test Year determinations on, for example, revenue forecasts, certain operating expenses (e.g., fuel and purchased power expense and non-O&M operating expenses), and projected rate base, the Commission approves the Parties' agreed-upon terms in their Settlement Letter as reasonable and supported by the present record. Any issues that were previously raised by the Commission, but which were not specifically resolved above, are approved as agreed upon by the Parties in settlement.

E.

Implementation

HELCO shall submit revised tariff sheets consistent with this Decision and Order for the Commission's review within thirty (30) days of this Decision and Order (this does not include the submission of HELCO's revised ECRC tariff, which, as noted above, is subject to a separate review process).[180]

[180]See Sections II.C.4 ("Proposed ECRC Modifications"), above.

The Consumer Advocate may submit comments on HELCO's proposed final tariffs within fifteen (15) days of being served with HELCO's proposed final tariffs.

F.

Hawaii Energy Policy Statutes

The State of Hawaii has expressed several energy policies requiring and/or encouraging reduction in the utilization of fossil fuels in statutes that directly pertain to the regulation of public utilities. These statutes include standards requiring minimum reductions in electric energy consumption through energy efficiency measures by specific dates;[181] standards requiring minimum percentages of renewable energy generation by specific dates;[182] provisions allowing for utility utilization and dispatch of renewable generation resources;[183] provisions requiring consideration of factors related to impacts of fossil fuel use in the regulation of public utilities;[184] and provisions that require

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[181] See e.g., HRS § 269-96.

[182] See e.g., HRS §§ 269-91 to -95.

[183] See e.g., HRS § 269-27.2.

[184] See e.g., HRS § 269-6(b).

consideration of specific resources and/or regulatory mechanisms.[185]

In particular, HRS § 269-6(b) provides, in relevant part:

> The public utilities commission shall consider the need to reduce the State's reliance on fossil fuels through energy efficiency and increased renewable energy generation in exercising its authority and duties under this chapter. In making determinations of the reasonableness of the costs of utility system capital improvements and operations, the commission shall explicitly consider, quantitatively or qualitatively, the effect of the State's reliance on fossil fuels on price volatility, export of funds for fuel imports, fuel supply reliability risk, and greenhouse gas emissions.

The Commission recognizes the importance of considering the effects that Hawaii's reliance on fossil fuels have on the State's economy and general welfare in making utility resource planning, investment, and operation decisions. In performing the duties specified in HRS Chapter 269, the Commission has been diligent in implementing the State's energy policies and statutes, giving deliberate weight to these provisions in the broader context of the many other statutes and considerations necessary to regulate and provide reliable and affordable access to essential electric utility services.[186]

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[185]See e.g., HRS §§ 269-16.1 269-146, 269-147, 269-148, and 269-149.

[186]Some of these broader considerations (such as monetary costs) are obvious, while others are explicitly stated or implied elsewhere in statutes, and/or specified in case law in which the

The composition of HELCO's generation system is regularly examined in the context of long-range resource plans that are reviewed by the Commission in formal regulatory proceedings.[187] The Commission's review of HELCO's long range plans includes rigorous, explicit consideration of the State's concurrent statutory energy policies and laws. Additionally, the Commission has initiated several investigative proceedings, some that have ended and some currently pending, that specifically address measures, resources, programs, and regulatory mechanisms that are intended to further the State's energy policies and laws and, in particular, reduce Hawaii's reliance on fossil fuel resources.[188]

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courts have set forth standards and interpretations regarding the determination of just and reasonable rates, which collectively include: reliability, affordability, fairness, provision of just and reasonable compensation for utility investment, and provision of just and reasonable rates to utility customers.

[187]See e.g., Docket No. 2014-0183 (Power Supply Improvement Plan); and Docket No. 2018-0165 (Integrated Grid Planning).

[188]See e.g., Docket No. 2003-0371 (establishing a distributed generation framework); Docket No. 2005-0069 (examination of DSM programs and establishment of a third-party energy efficiency program provider); Docket No. 2008-0273 (establishment of feed-in tariffs); Docket No. 2008-0274 (establishment of revenue decoupling to remove disincentives for energy efficiency and distributed customer generation); Docket Nos. 2007-0341 and 2015-0412 (implementation of demand response resources); Docket Nos. 2014-0192 and 2019-0323 (investigations into establishing programs and policies regarding distributed generation resources); Docket No. 2018-0141 (application for approval of first phase of grid modernization); and Docket No. 2018-0088 (investigation into

The instant proceeding is a general rate case in which determinations of the reasonableness of the costs of utility system investments, capital improvements, and operations is a central focus. The revenue requirements approved in this proceeding include both costs for owning and operating existing fossil fuel generation facilities, as well as costs associated with capital improvements and operations for increased energy efficiency, renewable energy generation,[189] and reductions in fossil fuel utilization. In particular, HELCO states that its proposed revenue requirement includes costs associated with a number of initiatives:

> [I]ncluding without limitation, energy efficiency and increased renewable energy generation through various renewable energy sources including distributed energy resources, renewable generation RFPs, renewable resource contract negotiation, long term resource planning including integrated grid planning and identification of non-wires alternative solutions, Community Based Renewable Energy, grid modernization and the procurement of grid services through demand response, and electrification of transportation.[190]

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performance-based regulation the Hawaiian Electric Companies, including HELCO).

[189]See HRS § 269-6(b), stating "[t]he public utilities commission shall consider the need to reduce the State's reliance on fossil fuels through energy efficiency and increased renewable energy generation in exercising its authority and duties under this chapter."

[190]Settlement Letter, Exhibit 1 at 10 (citing HELCO DT, HELCO T-1, HELCO T-7, HELCO T-9, HELCO T-10, HELCO T-11, and HELCO T-19).

In approving HELCO's final rates in this Decision and Order, the Commission notes and explicitly considers that HELCO's 2019 Test Year revenue requirement includes the costs of several purchases, measures, programs, and operations that specifically target reductions in fossil fuel use,[191] including:

Purchases of renewable energy generation by contract from IPPs. HELCO's 2019 Test Year revenue requirement includes costs related to HELCO's PPAs with independent power producers ("IPPs") who provide electrical energy from renewable resources, including: Wailuku River Hydroelectric, Limited Partnership; Hawi Renewable Development, LLC; Tawhiri Power, LLC (Pakini Nui Wind Farm); small hydro; the Feed-In-Tariff ("FIT") program; and the Community Based Renewable Energy program.[192] Increasing amounts of local renewable energy generation are expected to reduce the risk of price volatility by incorporating increasing amounts of energy purchased at fixed prices (and thereby displacing generation provided by market-based fossil fuels).

Costs and expenses associated with supporting integration of renewable energy. As part of its 2019 Test Year

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[191]Which, in turn, serves to reduce the State's reliance on fossil fuels and any associated price volatility, export of funds for fuel imports, fuel supply reliability risk, and greenhouse gas emissions, as discussed further, below.

[192]See HELCO DT, HELCO-708A and HELCO-709.

expenses, HELCO has included costs to support: its Demand Response program; enabling technologies to facilitate system reliability as increasing amounts of renewable and distributed energy are integrated on to HELCO's system, the continued acquisition of renewable energy from third-parties; and its microgrid efforts.[193] Continued progress on these offerings will help offset the need for fossil fuel generated electricity and related ancillary services, which, in turn, mitigate concerns related to price volatility, reliance on imported fossil fuels, and greenhouse gas emissions.

Modification to HELCO's ECRC to incorporate a risk-sharing mechanism. As discussed above, the Commission has approved a modification to HELCO's ECRC such that HELCO is now exposed to a portion of the risk of the volatility of fossil fuel markets.[194] Rather than serving as a complete pass-through for fossil fuel costs, the ECRC will require HELCO to share in the fuel price risks borne by customers, which provides incentive for HELCO to accelerate efforts to reduce its reliance on fossil fuels.

Thus, upon explicit consideration, weighing of the four specified criteria in HRS § 269-6(b) (price volatility, fuel supply reliability risk, export of funds for fuel imports, and greenhouse

[193]See HELCO DT, HELCO T-7 at 44-46 and HELCO-710.

[194]See Section II.C.4, above.

gas emissions), as well as the need to reduce the State's reliance on fossil fuels through energy efficiency and increased renewable energy generation, the Commission finds reasonable HELCO's 2019 Test Year utility system capital improvements and operations costs.

That being said, while the Commission determines that the costs associated with these above-discussed efforts are reasonable, the pace at which HELCO pursues renewable energy solutions must be accelerated. The legislative mandates noted above, as well as Hawaii's recognized role as a leader in integrating renewable energy, demand greater progress. Going forward, the Commission expects HELCO to exhibit sustained initiative in pursuing and implementing renewable energy. This includes, but is not limited to, improving the speed and efficiency in resolving DER interconnection disputes, continue to pursue PPAs for renewable energy at competitive prices,[195] and aggressively exploring innovative ways to further reduce its reliance on fossil fuels.

[195]See https://www.hawaiianelectric.com/clean-energy-hawaii/our-clean-energy-portfolio/renewable-project-status-board.

III.

SUMMARY OF FINDINGS OF FACT AND CONCLUSIONS OF LAW

1. The Commission accepts and finds reasonable HELCO's proposed 56.83% common equity ratio for its 2019 Test Year, which results in a total 58% equity ratio, when combined with the undisputed 1.17% ratio for HELCO's preferred stock.

2. A fair and reasonable ROE for HELCO for the 2019 Test Year is 9.50%.

3. Based on the 58% equity ratio for HELCO's capital structure and a 9.50% ROE, the Commission approves as fair and reasonable an overall rate of return of 7.52% on average rate base for HELCO's 2019 Test Year.

4. A 10-year amortization period for HELCO's State ITC for its 2019 Test Year is just and reasonable in light of the record and attendant circumstances.

5. The Commission declines to modify the automatic annual target heat rate adjustment component of HELCO's ECRC at this time, but will continue to examine this issue in the context of the PBR proceeding.

6. Upon considering the record and the unique circumstances of this proceeding, notwithstanding HELCO's increases in several categories of O&M expenses since its 2016 test year rate case, the Commission finds that it is not reasonable to increase HELCO's rates beyond the interim increases already

provided annually by the RAM Provision (i.e., beyond current effective rates).

A. Based on its review of the record, the Commission finds that HELCO has not demonstrated sufficient proof that it has implemented adequate cost control efforts associated with proposed increases in O&M expenses since its last general rate case.

B. The Commission is not persuaded by HELCO's explanations for its proposed O&M increases. While providing reasons for variances in certain expense, they do not sufficiently establish that these expense increases are reasonable or were otherwise determined in a cost-efficient manner.

C. A Management Audit conducted on HECO, HELCO's parent company, identified substantial failures to implement adequate cost control which have been acknowledged by HECO management. As noted in the HECO Management Audit, given the interrelated nature of HECO with HELCO and MECO, it appears that similar inefficiencies exist within HELCO and are currently incorporated into both HELCO's existing and proposed rate increase.

D. Under HELCO's decoupling mechanisms, since its last rate case (test year 2016) HELCO has benefited from annual increases in its effective rates and target revenues in accordance with its RAM Provision tariff which functions as an interim attrition mechanism.

E. In sum, taking the entire record and attendant circumstances into consideration, the Commission concludes that HELCO has not met its burden of proof to justify an increase in its current effective rates in this proceeding.

7. In light of the findings above, the Commission affirms its interim finding regarding this issue and denies the proposed increase in revenues of $1,748,000 such that, notwithstanding the other findings regarding the Settlement Letter, HELCO's final rates based on its 2019 Test Year will be maintained at current effective rates.

8. The cost allocation and rate design agreed to by the Parties as reflected in the Settlement Letter are reasonable.

9. The Commission declines to modify HELCO's RBA Rate Adjustment at this time, but will continue to examine this issue in the context of the DER proceeding.

10. HELCO's ECRC shall be modified to incorporate a risk-sharing mechanism based on Blue Planet's proposal, as set forth above. Within thirty (30) days of this Decision and Order, HELCO shall submit a proposed ECRC tariff for the Commission's review and approval. The Consumer Advocate and Blue Planet may submit comments on HELCO's proposed ECRC tariff within fifteen (15) days of being served with HELCO's proposed ECRC tariff.

11. With regard to the remaining 2019 Test Year determinations which are not specifically addressed above,

the Commission approves the agreed-upon terms in the Parties' Settlement Letter, as adjusted by the Commission herein.

12. Notwithstanding the Commission's approval of the Parties' agreements reflected in their Settlement Letter, the approval of the Parties' settled terms, or any of the supporting methodologies, may not be cited as precedent by any parties in future Commission proceedings.

IV.

ORDERS

THE COMMISSION ORDERS:

1. The Settlement Letter is approved, in part, subject to the Commission's modifications, as set forth above.

2. The Commission's approval of the Settlement Letter, or any methodologies used by the Parties in reaching the Settlement Letter, may not be cited as precedent in any future Commission proceeding.

3. HELCO shall submit proposed final tariffs reflecting final rates maintained at current effective rates, consistent with this Decision and Order within thirty (30) days of this Decision and Order for the Commission's review and approval. The Consumer Advocate may submit comments on HELCO's proposed final tariffs within fifteen (15) days of being served with HELCO's proposed final tariffs.

4. Regarding HELCO's ECRC tariff, HELCO shall submit a proposed revised ECRC tariff consistent with the rulings in this Decision and Order within thirty (30) days of this Decision and Order. The Consumer Advocate and Blue Planet may submit comments on HELCO's proposed revised ECRC tariff within fifteen (15) days of being served with HELCO's proposed revised ECRC tariff.

5. Upon issuance of Commission orders approving HELCO's final tariffs and revised ECRC tariff, this docket shall be considered closed, unless otherwise ordered by the Commission.

DONE at Honolulu, Hawaii JULY 28, 2020.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By ______________________
James P. Griffin, Chair

By ______________________
Jennifer M. Potter, Commissioner

By ______________________
Leodoloff R. Asuncion, Jr., Commissioner

APPROVED AS TO FORM:

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Mark Kaetsu
Commission Counsel

2018-0368.ljk

CERTIFICATE OF SERVICE

Pursuant to Order No. 37043, the foregoing order was served on the date it was uploaded to the Public Utilities Commission's Document Management System and served through the Document Management System's electronic Distribution List.